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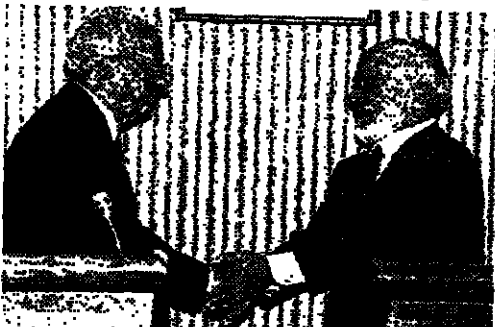
# FINANCIAL TIMES

Europe's Business Newspaper

TUESDAY OCTOBER 18 1994

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## Israel and Jordan agree draft deal for peace treaty



Israeli prime minister Yitzhak Rabin (left) and King Hussein of Jordan (right) announced they had reached a draft peace treaty, paving the way to normal relations between the two countries and breaking down economic barriers in the Middle East. The two leaders settled disputes over their borders and access to the region's water sources to achieve the treaty, which was initiated by Mr Rabin and Mr Abdul-Salam al-Majali, the Jordanian prime minister, in Amman, the Jordanian capital. Page 18; Cornerstone for new Middle East, Page 5; Editorial Comment, Page 17; Lex, Page 18

**Eurotunnel:** The railways of Britain, France and Belgium announced the start of high-speed Channel tunnel rail services, with prices for a return ticket from London to Paris starting at £95 (£150, Eurotunnel, the Channel tunnel operator, meanwhile, said it expected revenues for 1994 to be only a quarter of the £155m (£218m) it predicted as recently as May, following delays to the start of rail services. Page 8; Eurotunnel warns of lower revenues, Page 19; Lex, Page 18

**India eases lending controls:** India scrapped most controls on bank lending rates in a move to promote cheaper credit, greater liberalisation in financial markets and more competition in the banking industry. Page 18

**\$10bn fraud halted:** An international police operation led by the UK's metropolitan fraud squad prevented a \$10bn fraud attempt on the Agricultural Bank of China, one of China's big four banks. Page 8

**Brussels extends telecoms probe:** The structure of Italy's state-controlled telecoms sector is to come under European Commission scrutiny as part of an antitrust investigation into a proposed venture between Italtel, Italy's telecoms equipment manufacturer, and Siemens of Germany. Page 18

**Poll called to end Bulgarian crisis:** Bulgarian president Zhelyu Zhelev, ended a six-week-long cabinet crisis by dissolving parliament and appointing an interim government until early general elections on December 18. Page 3

**Unilever:** Third-quarter earnings at the US computer group dropped sharply as it continued a painful transition from mainframe computers to information services. Net income for the third quarter was \$42.9m compared with \$84.1m in the same period last year. Page 19

**Arrest warrant for financier:** An arrest warrant was issued for Javier de la Rosa, the Barcelona-based financier who in the 1980s became a symbol of the then booming Spanish economy as he orchestrated investment into the country by the Kuwait Investment Office. Page 3

**Honda is investing more than ¥100bn (\$100m) in a new car-making plant in Thailand, a move that will double its Thai capacity and may lead to the production of a small, popular car for Asia. Page 6**

**Finland's EU vote boosts Nordic hopes:** Swedish prime minister Ingvar Carlsson, flew to Oslo for talks with Gro Harlem Brundtland, his Norwegian counterpart, as the two leaders sought to capitalise on Finland's approval of European Union membership. Page 4

**Mitsubishi Motors** is to begin producing cars in Europe for the first time next year at its joint venture plant in the Netherlands. The company aims to produce up to 100,000 Mitsubishi cars a year by 1997. Page 6

**China-US air traffic accord:** China and the US agreed to co-operate in converting the Chinese military-dominated air traffic control system to civilian management under an agreement signed by senior US and Chinese officials. Page 5

**Bomb kills Russian reporter:** A suitcase bomb killed investigative reporter Dmitry Khodolov and destroyed the newsroom of Moskovsky Komsomlets, a popular Moscow newspaper that had crusaded against the Russian mafia.

STOCK MARKET INDICES			
FT-SE 100	3,122.2	(+13.5)	
Nikkei	14,000	(+100)	
DAX	1,200	(+10)	
FT-SE Europe 100	1,343.0	(+7.1)	
FT-SE Asia Share	1,548.45	(+0.3%)	
Nikkei	14,000	(+11.0)	
New York: S&P 500	2,918.55	(+0.08)	
US Composite	498.58	(+0.54)	
US LUNCHTIME RATES			
Federal funds	4 1/4%		
3-mo Treas Bill	4.375%		
Long bond	5 1/4%		
Yield	7.85%		
LONDON MONEY			
3-mo interbank	5 1/4%	(5 1/4%)	
Libor 3m bill	5 1/4%	(5 1/4%)	
NORTH SEA OIL (Argus)			
Brent 15-day Del	\$18.915	(15.70)	
Gold			
New York Comex Dec	\$392.1	(390.0)	
London	\$392.2	(387.8)	

Austria	5000	Germany	1000	Italy	1000	Japan	1000	UK	1000
Belgium	1000	France	1000	Spain	1000	Sweden	1000	Switzerland	1000
Denmark	1000	Finland	1000	Greece	1000	Ireland	1000	Netherlands	1000
Portugal	1000	Slovakia	1000	Slovenia	1000	South Korea	1000	Taiwan	1000
Thailand	1000	USA	1000	Yugoslavia	1000				

## First step in partial sell-off ■ Car group valued at up to FFr42.5bn France launches Renault shares

By John Riddling in Paris

The French government will today launch the partial privatisation of Renault, the motor group that is one of the most attractive assets in the country's public sector and a former bastion of union power.

Mr Edmond Alphandery, economy minister, gave a guideline price of between FFr183 and FFr178 per share for institutional investors, valuing the company at between FFr39bn (£7.4bn) and FFr42.5bn. The price range, which officials described as non-binding, is below many market estimates which have been between FFr42bn and FFr45bn.

Mr Alphandery described the partial privatisation, which is expected within the next month, as an important step for the motor group and for French financial markets.

"It will give Renault the resources for development and place it in pole position for competition with its rivals. It also puts one of France's most important industrial groups on the bourse," he said.

The issue is being aimed mainly at individual investors, who will be able to make non-binding applications for shares from today. Mr Alphandery said the government planned to sell about 60 per cent of the shares to

individuals, but the proportion could be increased to two-thirds if demand was strong.

Previous issues in the French government's privatisation programme have seen shares clawed back from institutional investors following strong subscriptions by individuals. Industry observers in Paris predicted that Renault would also see keen interest.

"It is a household name and seems likely to be fairly priced," said a motor industry analyst at a French merchant bank. He added that Renault, which achieved profits of FFr1.07bn last year and forecasts a strong increase in 1994, was one of the few motor groups to remain in

profit during the recession in the industry in 1992 and 1993.

Mr Alphandery stressed that the company would remain in French hands and that the government, which holds 80 per cent of Renault's shares, would retain a 51 per cent stake. "Privatisation is not on the agenda. There are no plans for a second tranche to be floated on the bourse."

The proceeds of the share sale are expected to be used to finance a capital increase at Air France, the loss-making state-owned airline.

The government's decision to limit the flotation to a partial privatisation reflects the political sensitivity of Renault. The com-

munist-led union, the Confédération Générale du Travail, has sought to block the sale of Renault shares, but calls for industrial action at the motor group have met with little success.

As part of the operation, Volvo of Sweden, Renault's former partner in an aborted merger, will sell between 8 per cent and 12 per cent of the French company's shares. Volvo holds 20 per cent of Renault's equity, which it has kept since the collapse of the merger plans last year.

The French economy minister said that foreign shareholders would be welcome and that international investors had expressed strong interest in the issue.

## Kohl in talks to reform German coalition

By Quentin Peel in Bonn

Chancellor Helmut Kohl held preliminary talks yesterday to reform Germany's conservative-liberal coalition after its parliamentary majority was drastically reduced - from 134 to just 10 seats - in Sunday's election.

He rejected any suggestion that the majority might be too small to govern the country, and ruled out a grand coalition with the opposition Social Democratic party (SPD). Mr Rudolf Scharping, the SPD leader, also rejected calls from his own party for such a move, while predicting that the present coalition would prove unstable.

The coalition of Mr Kohl's Christian Democratic Union (CDU), its Bavaria-based sister party, the Christian Social Union (CSU) and the liberal Free Democratic party (FDP) was "perfectly capable of government", the chancellor said. "The German voters have shown confidence in us once again."

A Kohl victory had been heavily discounted by the financial markets, which reduced its impact yesterday. The D-Mark's performance was mixed, with the main casualty on currency markets being the dollar, which sunk to a two-year low. It was trading last night at DM1.465 in New York, below the previous 1994 low of DM1.5160.

The Frankfurt stock exchange gained nearly 2 per cent, measured by the DAX index of 30 leading shares, although it later eased to close 0.7 per cent down at 2,081 points.

The final election result for the Bundestag, the lower house of parliament, gave the CDU 244 seats in a 672-seat assembly, with 50 seats for the CSU, and 47 for the FDP. This gave a total of 341 seats for the government, against a combined 331 for the opposition parties - the SPD, the Greens, and the Party of Democratic Socialism (PDS), the re-formed

Continued on Page 18  
Election reports, Page 2;  
Battle to hold middle lane, Page 17; Editorial comment, Page 17; Observer, Page 17; Bonds, Page 24; Currencies, Page 36; World stocks, Page 38

## GE agrees terms for sale of Kidder to PaineWebber

By Richard Waters in New York

Kidder Peabody, the troubled investment banking subsidiary of General Electric, will be broken up and its most attractive businesses transferred to Wall Street rival PaineWebber.

The deal, agreed late on Sunday and announced yesterday morning, ends GE's troubled eight-year ownership of Kidder Peabody. Rocked by an insider trading scandal and loss-making junk bond holdings in the late 1980s, Kidder has been hit this year by tumbling bond markets and an alleged bond trading fraud which resulted in fictitious profits of \$36m.

The US industrial conglomerate said it would take a charge of around \$50m as a result of the sale, taking the total cost of its ill-fated involvement with Kidder to more than \$1.5bn.

GE paid \$80m for 80 per cent of Kidder in 1986 and subsequently injected another \$80m of capital. By the middle of the year, Kidder had returned a total of \$25m in profits, GE said.

Since then, the firm is understood to have lost \$5m.

The deal with PaineWebber is worth a net \$92m to GE.

Under the agreement, PaineWebber will acquire Kidder's highly regarded retail stockbroking business, which generates around \$50m of revenues a year, and its fund management operation. It will also take over parts of Kidder's investment banking and trading businesses, though

final agreement will be reached over the coming weeks.

PaineWebber will receive \$58m in net assets from GE. In return, the securities firm said it would issue \$70m of ordinary, convertible and preferred shares to GE, which if fully converted would give the industrial group a 25 per cent interest.

Mr Jack Welch, GE's chairman who negotiated the original Kidder purchase, said yesterday that the group would retain an interest in "a much larger, well-established franchise" in the broking industry.

The deal will further PaineWebber's ambition of becoming a full-service investment bank, combining a retail broking force with underwriting securities issues, advising on takeovers and trading, said Mr Donald Marron, chairman.

However, rivals pointed out that the acquisition of Kidder's businesses would do little to strengthen PaineWebber's underwriting and advisory operations. Besides Kidder's specialised mortgage-backed bonds business, which may not be transferred to PaineWebber, neither firm has a substantial presence in these businesses.

GE will remain liable for any outstanding lawsuits against Kidder, including any litigation connected with the alleged fictitious profits scheme. It will also pay redundancy costs for staff not taken on by PaineWebber.

Lex, Page 18

## Queen arrives in Russia



Queen Elizabeth, the first reigning British monarch to visit Russia, inspects a guard of honour on her arrival in Moscow yesterday. She was greeted at Vnukovo 11 Airport by Oleg Soskovets, the first deputy prime minister, as Viktor Chornomyrdin, the prime minister, is on holiday.

Later, the Queen and her husband, Prince Philip, received a formal red carpet welcome from President Boris Yeltsin at St George's Hall in the Kremlin.

However, the start of the historic four-day visit was marred

by furore over the marital problems of her son and heir to the throne, Prince Charles, the Prince of Wales.

John Major, the UK prime minister, dismissed as "pretty far from the mark" reports that he was to advise the Queen that the prince and the Princess of Wales

should divorce as soon possible. Close aides of the prime minister made clear that he continued to believe the monarchy was the cornerstone of the British constitution and must remain so.

Joe Rogaly, Page 16; Observer, Page 17  
Picture: Reuters

## Samsung to invest \$723m in new UK manufacturing plant

By John Burton in Seoul, Christine Tighe in Cleveland and Alan Cane in London

Samsung of South Korea, the world's 14th largest industrial group, is to invest \$450m (£723m) to build a manufacturing plant at Livingston, near Edinburgh in Scotland.

The factory, which will produce consumer goods ranging from microwave ovens to computer monitors for the European market, will eventually create 3,000 new jobs and provide a considerable psychological boost for a region where high unemployment seems endemic.

The Korean company also plans to move its European headquarters from Frankfurt to London as part of the deal. The investment was unveiled yesterday by Mr Michael Heseltine, secretary of state for trade and industry, during a visit to Seoul, who said that Samsung was attracted to the UK because of "competitive wage rates without the social charter".

Samsung's plan is the latest in a series of large investments in

the UK by foreign companies. Last month NEC, the Japanese electronics giant, said it intended to spend \$550m to build a semiconductor manufacturing plant at Livingston, near Edinburgh in Scotland.

The UK government offered Samsung \$58m in regional grants and loans to secure the project. Together with indirect aid the

Samsung project biggest since Nissan - Page 9

support is equivalent to 20 per cent of Samsung's investment.

Samsung's decision follows stiff competition from other European countries. The Cleveland investment dwarfs other Korean investments in the European Union (EU).

Mr Chan Bea, managing director of Samsung's UK operations, said the decision had been influenced by the proximity of Cleveland to Scotland's "Silicon Glen" where a large number of computer manufacturers, potential customers for Samsung's electronics products, are located. He

said the move was part of Samsung's globalisation strategy and a measure against possible anti-dumping measures by the EU.

Samsung intends initially to manufacture 1.3m microwave ovens and 1m computer monitors annually at the Cleveland site. It will add production facilities for personal computers, facsimile machines, colour display tubes and semiconductor. The plant should be completed by 1999 when it should be generating \$20m in turnover, about half the group's total European sales.

Samsung manufactures a broad range of products from semiconductors and personal computers to ships, petrochemicals and medical equipment.

Samsung Electronics was established in the UK in 1989. It makes 700,000 televisions a year in Teesside, and earlier this year agreed to invest £11m over three years in the Teesside plant.

The UK accounts for 47 per cent of all Korean manufacturing in the EU with 10 Korean firms operating in the country.

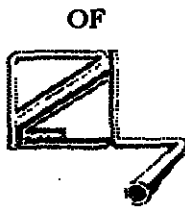
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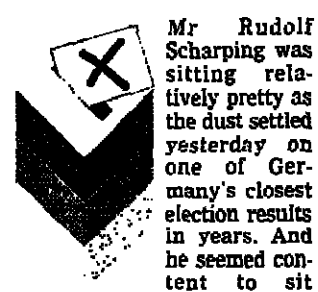
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## NEWS: EUROPE

# SPD leader unbowed after defeat in German polls

By Michael Lindemann in Bonn



## GERMAN ELECTIONS

Mr Rudolf Scharping was sitting relatively pretty as the dust settled yesterday on one of Germany's closest election results in years. And he seemed content to sit tight. Looking slightly more relaxed than during pre-election encounters with the press, the leader of the Social Democratic party (SPD) said he would give the government no quarter over the next four years. "Nothing will get done without the Social Democrats," he said.

True, Mr Scharping has not managed to unseat Chancellor Helmut Kohl and many party members, exasperated by 12 years of Mr Kohl, were obviously disappointed.

He had also not fought the most inspiring election campaign, allowing a lead of several percentage points in the spring to be turned into a 5.1 point bonus for Mr Kohl's Christian Democratic Union and its Bavarian sister party, the Christian Social Union.

He did, however, manage to improve on the party's dismal performance in 1990 when it



Rudolf Scharping: pledged to give Kohl government no quarter. 'Nothing will get done without the Social Democrats'

won just 33.5 per cent. The odds were also against him: no modern German government has fallen at the elections; they have collapsed mid-term with the break-up of the governing coalition. Had Mr Scharping made it, he would also have been the first state premier to manage the leap from a provincial capital directly to the chancellor's office in Bonn.

Most importantly, party members and outside observers were agreed that Mr Scharping had emerged from Sunday's vote unchallenged as the party's leader. For the time

being at least he has fended off a challenge from Mr Gerhard Schröder, the ambitious state premier of Lower Saxony, whose differences with Mr Scharping had several times caused confusion in SPD ranks.

Once again, though, it seems Mr Schröder will have to play second fiddle. Mr Scharping denied any prospects of a grand coalition and seemed content yesterday to sit out Mr Kohl's new and weaker coalition and wait his turn.

That could happen in two ways. The Free Democratic

party (FDP), the small liberal party which has been in coalition with the CDU since 1982, might decide in the next few years to transfer its allegiance and support the SPD, reversing the move it made 12 years ago when it caused the collapse of the then SPD government.

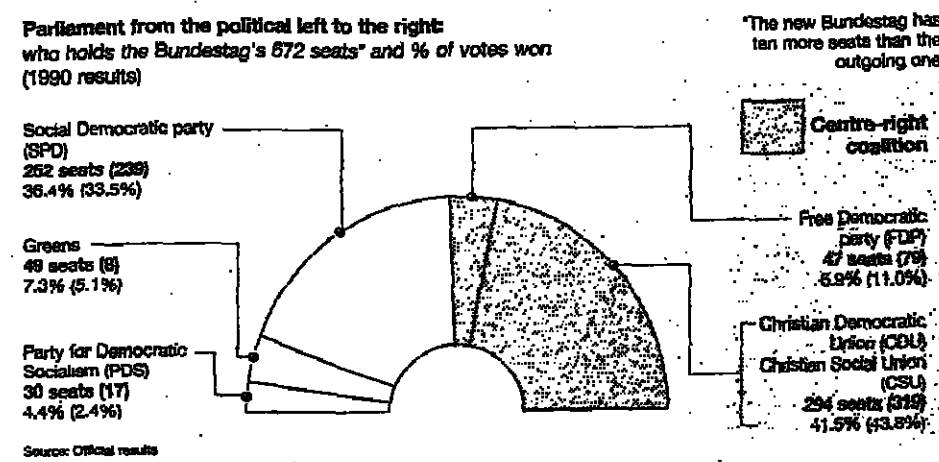
A more plausible, though still distant, possibility is that the CDU and SPD move closer together over the next four years if it becomes apparent that Mr Kohl's new 10-seat government majority is becoming untenable.

Such a grand coalition does in practice already exist. Mr Kohl has a majority of just 10 seats in the Bundestag, while the SPD controls just over 60 per cent of the votes in the Bundestag, the upper chamber which represents Germany's 16 Länder, and which approves all Bundestag legislation.

The parallels with Mr Kohl bode well for Mr Scharping's future. Both were state premiers of the Rhineland-Palatinate, the wine-growing southwestern German state.

Now Mr Scharping hopes that he will today be endorsed as the leader of the SPD's parliamentary party aged 46, as Chancellor Kohl was when he took over his party in Bonn in 1976. Mr Kohl had to wait just six years before he managed to move from parliament into the chancellor's office.

## Election results: the coalition scrapes back



## 'Overhang mandates' help swell Kohl's majority

Chancellor Helmut Kohl's governing Christian Democrat coalition, which in the early hours of the federal count had its slender majority reduced to two, managed to increase it by eight because of the "overhang mandates", a peculiarity of the German political system. The opposition Social Democrats gained four extra seats in this way, writes Judy Dempsey in Berlin.

The system works as follows. If a party gains more seats on the first vote (for directly-elected individual constituency seats) than its share based on the second vote (for the party) then the number of seats is increased by the difference. These are known as "overhang mandates". This is done on a state-to-state basis.

For example, in the case of Mecklenburg-Vorpommern, the CDU won seven of the nine constituencies. In the second vote, it

was allocated five seats. This number reflects the state's share of the overall federal CDU party vote, which was just over 34 per cent, the equivalent of 232 seats.

But since the number of seats the CDU won on the constituency level exceeded by two the number of seats available to the Mecklenburg-Vorpommern CDU on the federal party list, the party still retains the right to send the seven directly-elected deputies. The extra two are known as overhang votes.

Through the overhang mandate system, the CDU won extra seats in several other constituencies, which helped boost Mr Kohl's majority. These include two overhang mandates in Baden-Württemberg, two in Saxony-Anhalt, three in Thuringia and three in Saxony. The outgoing Bundestag had six such overhang mandates. The incoming one will have 16.

# Election boost poses dilemma for east German party

The PDS must decide whether to widen its horizons, writes Judy Dempsey in Berlin

Leaders of the Party of Democratic Socialism, successor to east Germany's former Communist party, had much to smile about yesterday. They had won four constituencies in east Berlin, gained 4.4 per cent of the national vote, and will have 30 deputies in lower house of parliament, the Bundestag.

"Against all the odds, including the anti-PDS propaganda in the media, we have proved we are a genuine left-wing party for the east Germans," said Mr

Gregor Gysi, its charismatic parliamentary leader. Ironically, however, the very success has exposed the party's weaknesses as it tries to define its role in the Bundestag, and what kind of party it wants to become.

Ms Christa Luft, economics minister in the last Communist government in East Germany who was elected for the PDS in east Berlin, said she would lobby hard for east German interests. "We have to have a new policy for the east German

Mittelstand (small and medium-sized companies). They require capital and financial assistance."

Mr Manfred Müller, a former banker who was also elected, wants a new housing policy for the east Germans. But Mr Gysi admitted it was too early to say what impact the PDS would have on the Bundestag.

One thing seems certain, however. The PDS will be working closely with the Greens and the Social Democrats to promote east German

interests, and to dispel the persistent image in western Germany that it is at heart either still communist, or merely an ephemeral "protest" one.

To achieve the latter, the PDS knows it has to confront three issues: its membership structure; whether it will remain a regionally-based party for the east Germans, akin to Bavaria's Christian Social Union; and if it can isolate the Communist Platform, its influential Leninist faction. The party's voting structure

is already changing. Although 90 per cent of members are former communists, this does not reflect its vote Mr Andre Brie, the campaign manager, and Infus, the independent polling organisation, have shown that more than 20 per cent of PDS voters are under 25 - too young to have any meaningful communist background. However, more than 50 per cent are unemployed. "This vote will erode over time," said Mr Brie, adding that it would be strategically unwise for the party to rely on this protest vote. "When the economy picks up, peoples' voting habits will change."

The PDS will thus have to decide if it will remain a party for east Germans in the expectation that they will retain an identity, and interests, separate from west Germans, or should move into the western states - the party has already captured 5 per cent of the vote in the radical Kreuzberg district of west Berlin.

"We want to get a foot in the west and be seen as the alternative left-wing party," said Mr Lothar Bisky, PDS leader. That carries a risk. Were the PDS to go nationwide, it could split the left-wing vote in the west - to the advantage of Chancellor Helmut Kohl's Christian Democrats.

But these problems pale in comparison to the task the party faces in shaking off its



Parliamentary leader Gregor Gysi: "We have proved we are a genuine left-wing party for the east Germans."

communist legacy so that it can move towards becoming, at least in east Germany, a genuine east German social democratic party. If it wants to woo SPD votes in the east, and later in the west, it knows it must expel the Communist Platform.

Achieving this would remove the charge that the PDS is a mere front for communists. East Germany's SPD state and

local governments might also find it ideologically more acceptable to work with a "purge", though, would deprive the party of a vital and disciplined grassroots element which helped increase its influence in all five east German states. "But it is a showdown we have to have," said Mr Bisky. "And we have to address these issues very soon."

## Financial markets show their approval

By Andrew Fisher in Frankfurt

German financial markets opened yesterday with a positive reaction to the election result, but profit-taking and concern over the sharp cut in the government's majority left share prices slightly lower.

Initially, the Frankfurt stock exchange gained nearly 2 per cent, measured by the DAX index of 30 leading shares, later easing to close 0.7 per cent down at 3,081 points. Markets had already shifted last week from pessimism about a possible defeat for Chancellor Helmut Kohl to the expectation of a victory for the coalition his Christian Democratic Union (CDU) leads. Thus the vote's outcome had been discounted, with the DAX up by 7.4 per cent over the week.

The stock market also failed to draw any benefit from yesterday's firmer bond market, where prices continued last week's gains. Traders said higher bond prices reflected the strength of the D-Mark which yesterday stood at around DM1.50 against the dollar, a two-year high.

Although the coalition's majority fell from 184 to 10, economists felt investors would be encouraged by the re-election of Mr Kohl's government, committed to making Germany more competitive through deregulation, privatisation and debt-cutting.

"The good news is that the government can continue," said Mr Norbert Braems, Frankfurt-based economist at Barclays de Zoete Wedd. But, he added, "The narrow majority does not make politics easier."

The first test would be the next budget; the government intends to reintroduce an income tax surcharge to help pay for east German reconstruction. The opposition would be strong, he said, particularly because of the Social Democrats' increased majority in the upper house, the Bundesrat - which can hinder legislation - thanks to its performance in Sunday's regional state elections.

Economists said the Bundesbank would watch to see how decisively the government held back public spending. The bank has been concerned about the inflationary consequences of the cost of rebuilding east Germany.

Yesterday's September wholesale price figures for west Germany, with a rise of 2.8 per cent on the year against 2.2 per cent in August, showed inflationary tendencies persist.

The Bundesbank reported on a favourable trend in federal finances in its monthly report, however. It said the government had cash reserves of some DM11bn as a result of its capital-raising late last year. The federal cash deficit fell to DM15.3bn in the first nine months from DM38.7bn in the same period of 1993, partly as a result of a higher profit from the Bundesbank.

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## Job cuts spark strike at Skoda

By Vincent Boland in Prague

Ten thousand workers at Skoda Automobilova, the Czech carmaker that is part of the Volkswagen group, staged a half-hour warning strike yesterday over plans to make 800 employees redundant by the end of the year. More stoppages are threatened.

The dispute risks disrupting the launch next month of Skoda's Felicia model, its first new product since 1988. It could also rebound on VW's delicate talks with the government on increasing its stake.

Skoda says the job losses, announced last month, are nec-

essary to increase competitiveness and it has hinted at more next year. The company employs 17,000 people.

Union representatives insist, however, that wages are lower and productivity higher at Skoda's Mladá Boleslav plant north of Prague than in European Union countries.

Volkswagen's 31 per cent of Skoda is due to rise to 70 per cent under a 1991 agreement with the government, at a total cost of DM1.4bn. VW also agreed to invest DM1.5bn, but it announced last year that it would cut this to DM3.75bn after running up huge losses at its Seat subsidiary in Spain.

The original investment envisaged production levels of 400,000 cars yearly at Skoda by 1997, but this is expected to be changed to about 300,000 by the end of the decade.

Production has fallen steeply this year as the company's old Favorit model has been phased out and new assembly plants installed to produce the Felicia. Overall production is expected to dip to 180,000 this year from 230,000 last year, but Skoda says it should rise to 195,000 levels again next year.

Skoda lost Kcs4.26bn (\$164m) last year on revenues of Kcs35bn, and further losses are expected again this year.

Volkswagen and the government are discussing an addendum to the 1991 agreement under which the carmaker would commit itself to production, employment and investment targets. The talks are due to be completed by the end of this month. Even at its reduced level Volkswagen's investment in the Czech Republic to date. Hostility to foreign investment is growing, however, as the Skoda investment and other high-profile deals, such as that of Air France in Czechoslovak Airlines, begin to run into problems.

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## Rouble probe says fears caused fall

By John Lloyd in Moscow

The official investigation into the reasons for the more than 20 per cent fall in the value of the Russian rouble last week points to fears about the underlying weakness of the economy and not to subversive or criminal manipulation of the market, as senior Russian officials, including President Boris Yeltsin, initially suggested.

Mr Mikhail Zadornov, a member of a special investigation into the currency collapse, said yesterday that rising inflation, lower bank interest rates, a new tax on bank deposits and a presidential decree ordering all transactions of more than \$10,000 (\$5,293) to be reported to the tax police came together to produce a flight from the rouble. The probe is being led by Mr Oleg Lobov, the secretary of the Security Council, which reports to Mr Yeltsin on matters of national security.

The immediate cause of the rouble's fall, said Mr Zadornov, was "weak co-ordination" between the Finance Ministry and the Central Bank. He said the bank, which had drawn heavily on hard currency reserves which stood at only \$5bn on August 1 during trading in August and September, had ceased to intervene last week and precipitated the crash.

The findings of a report by the commission investigating the currency fall, which has not yet been officially released, was confirmed yesterday by leading Moscow bankers. Mr Vladimir Vinogradov, president of Inkombank, said yesterday that a lack of financial products in which money could be invested - apart from short-term Treasury bills - meant that fears of inflation and the drop in interest rates sent investors fleeing from the rouble into the dollar.

"Why can't the Central Bank develop a range of products as others are learning to do?"

asked Mr Vinogradov. Fears of a further sharp fall in the rouble in trading yesterday were not fulfilled. The Russian currency fell by only eight points to and the day at Rb2296 to the dollar. The currency fell to Rb2400 to the dollar on "Black Tuesday" last week, to recover after bank intervention to Rb2288 last Friday.

There is, however, less unanimity on the successor to Mr Victor Gerashchenko, the Central Bank chairman who resigned after what was said to be a frosty meeting with Mr Yeltsin last Friday - or even if his resignation is constitutionally in order.

Mr Zadornov, chairman of the parliament's budget committee, said his committee believed the resignation, accepted by Mr Yeltsin, should be debated by parliament and suggested that Mr Gerashchenko should be re-appointed acting chairman until another candidate is found.

Mr Vladimir Gusinsky, head of the most financial group and vice-president of the Association of Russian Banks, said that the chairman "must be a professional, not a macroeconomist" - a comment which indicated that the bank chiefs are against the appointment of either Mr Boris Fyodorov, the former finance minister, or Mr Yegor Gaidar, the former prime minister.

The NTV Independent TV channel - which Mr Gusinsky owns - reported on Sunday that Mr Gaidar would be appointed as head of the bank. However, his office said yesterday that Mr Gaidar would make no comment.

Mr Fyodorov said that the rouble's fall was engineered by the Finance Ministry and the Central Bank to "patch up the holes in the budget" by artificially lowering the rate of the rouble. He said the incident showed that the government had no defined economic policy and that there was "insufficient political will" to continue economic reforms.

## Arrest warrant issued for Spanish financier

By Tom Burns in Madrid

An arrest warrant was issued yesterday for Mr Javier de la Rosa, the Barcelona-based financier who in the 1980s became a symbol of the then booming Spanish economy as he orchestrated a major investment drive by the Kuwait Investment Office (KIO) into the country.

The chief prosecutor of Catalonia's supreme court in Barcelona, Mr Carlos Jimenez Villarejo, said that the arrest had been ordered on counts of fraud, misappropriation of public funds and falsification of legal documents in connection with Mr de la Rosa's loss-making holding company Gran Tibidabo and that he would oppose bail.

Mr de la Rosa is accused of re-routing towards other businesses in his holding Ptaiba (24,96m) of a Ptaiba credit, guaranteed by Catalonia's Generalitat government, that he obtained in order to develop a theme park south of Barcelona. Earlier this year Mr de la Rosa sold his interests in the theme park to a consortium headed by the UK's Tussauds Group, part of Pearson, owners of the Financial Times.

Mr de la Rosa, who was on a hunting trip in central Spain when the warrant was issued, meanwhile told a radio station that he was travelling back to Barcelona to present himself

to the court but that he could not "understand what all the fuss was about".

The arrest order has shaken the domestic financial establishment, which had viewed Mr de la Rosa's rapid creation of one of Spain's biggest private fortunes with a mix of awe and envy.

"A lot of people considered de la Rosa an upstart and had it in for him but the general belief was he would get away with it; now they are thinking again," said a Madrid broker.

The development is seen as part of a wider judicial movement against the self-made multi-millionaires of the late 1980s that has already tar-

geted Mr Mario Conde, who was removed as chairman of Banesto, one of the leading domestic banks, at the end of last year and Mr Manuel de la Concha, a former head of the Madrid stock exchange who was held briefly in prison earlier this year in connection with the collapse of a private banking empire he had created.

The move against Mr de la Rosa is also likely to have an embarrassing knock-on effect in Catalan political circles as his meteoric business career had been consistently backed by the local nationalist party as an example of Catalonian enterprise.

Prosecutor Jimenez Villarejo hinted yesterday that the judicial investiga-

tion into Mr de la Rosa's affairs could extend to local politicians.

Mr de la Rosa lost executive responsibilities at Grupo Torras, the KIO's investment arm in Spain, in a 1992 management shake-up and came under further pressure at a stormy shareholder meeting of his Gran Tibidabo holding in June after a revised audit declared losses of Pta11bn last year in place of profits of Pta16m.

Separately, the Barcelona financier, along with other former KIO executives, is being sued in Madrid and London by the Office's present board over alleged losses of Pta500bn that forced Grupo Torras into receivership two years ago.

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## Six-week row over cabinet prompts president's action

## Poll called to end Bulgaria crisis

By Theodor Troev in Sofia and Anthony Robinson in London

The Bulgarian president, Mr Zhelyu Zhelev, yesterday ended a six-week-long cabinet crisis by dissolving parliament and appointing Ms Reneta Indjova to lead an interim government until early general elections on December 18.

Ms Indjova, a tough-minded, 41-year-old economist who helped to draw up the economic programme of the anti-communist Union of Democratic Forces (UDF), is the first woman premier in this Balkan country's political history.

Early elections were made inevitable by the refusal of the two biggest parliamentary groups, the Bulgarian Socialist party (BSP) and the UDF, to try to form a government to replace the non-party government of technocrats headed by Mr Lyuben Berov.

Mr Berov, who survived a severe heart attack in March and six no-confidence votes over the past 12 months, resigned on September 2 after successfully concluding negotiations for a reduction of Bulgaria's \$9.3bn foreign debt and a strategically important oil pipeline deal with Russia.

His government, which was supported by Socialist party votes and a handful of break-away groups from the UDF, was never forgiven by the UDF which won the October 1991 elections but resigned and was

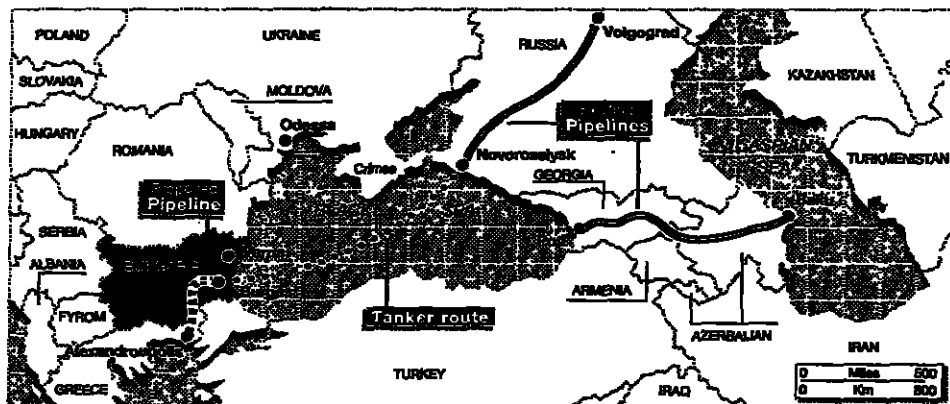
replaced after only a year in office by Mr Berov. This followed a no-confidence vote in Mr Philip Dimitrov, the then UDF prime minister.

The UDF saw the government as a front for the BSP with its roots in the communist past and continued to press for early elections. This

imposed embargo on neighbouring Serbia and the Greek blockade of the former Yugoslav republic of Macedonia also made millions out of smugglers and led to widespread bribery of poorly paid officials and policemen, undermining public morale.

Sensitive to such complaints,

ing the bureaucratic system and creating the institutional and legal framework needed to sustain several planned large infrastructure and industrial projects. The most important is a \$700m oil pipeline, to be financed largely by Russian oil companies and Greek banking and shipping companies.



is in spite of the fact that opinion polls indicate that the BSP is likely to emerge from elections as the largest party, albeit without an absolute majority.

The government was also held responsible for the emergence of a new class of businessmen who made quick profits from the illegal, or so-called "shadow", privatisation of state or municipally owned assets.

Breaking the United Nations

President Zhelev appealed to Ms Indjova to declare war on crime and to clear the administration of people with Mafia-type connections.

Critics also blame the slow pace of privatisation for the lack of transparency which has encouraged the enrichment of former communist officials.

The outcome of the elections will be closely watched both by potential western and Russian investors who are looking for a government capable of improv-

The pipeline will run from Burgas to the northern Greek port of Alexandroupolis, bypassing the congested Bosphorus. It will strengthen the hand of Russia which is determined to maintain a stranglehold over future exports of oil and gas from the entire Caspian region by ensuring that future regional pipelines converge on its own Black Sea port of Novorossiysk before transshipment to Burgas and on to the Aegean sea.

## Lisbon looks for rise in revenues

By Peter Wise in Lisbon

Portugal's centre-right government yesterday presented to parliament a moderately restrictive budget for 1995 that allows room for a high level of European Union-financed investment in the approach to a general election next October.

Mr Eduardo Catreira, finance minister, said the budget deficit would be cut to 5.8 per cent of gross domestic product from an estimated 6.3 per cent this year. The reduction is to be achieved through increased revenue rather than by spending cuts.

Portugal aims to consolidate a downward trend for the budget deficit after a large budget overrun in 1993 when the deficit jumped to 7.1 per cent of GDP. The original target for 1994 was 6.9 per cent but has been lowered as a result of higher than expected tax revenue.

Overall revenue next year is forecast to grow by 7 per cent compared with 1994, to \$3,649.2bn (\$14.7bn). The central value added tax rate is to be raised from 16 to 17 per cent. But Mr Catreira said the direct tax burden would not increase as a percentage of GDP.

Public spending is to rise 5.2 per cent, above forecast 1995 inflation of 3.5-4.5 per cent, to \$4,350.6bn. But Mr Catreira said the increase in current

spending would be lower than the inflation rate. Public investment is to rise by 15 per cent, largely due to national budget contributions to EU-financed projects.

The government aims to stimulate economic recovery in the run-up to the election. GDP growth resumed in mid-1994 after two years of recession and is expected to reach 1.1 per cent this year. Mr Catreira forecast the economy would expand by 2.5-3.5 per cent in 1995.

But Mr Anibal Cavaco Silva, prime minister, is also concerned to meet targets for nominal convergence with the EU, particularly now that the possibility of a multi-speed Europe has been raised by politicians in Germany and France.

Failure to cut public debt, inflation and interest rates would hinder Portugal's participation in economic and monetary union. The 1995 budget deficit target Mr Catreira announced yesterday is equal to that earlier suggested by the European Commission.

"If we lose the battle to reduce the budget deficit, Portugal will forfeit the political weight required to defend its interests within the European Union," Mr Cavaco Silva warned at the weekend.

He was talking to trade unionists after the collapse of efforts to forge a 1995 wage pact between government, employers and unions.

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# Cornerstone for new Middle East

Israel and Jordan point the way to regional economic changes, writes Julian Ozzane

The Israel-Jordan peace treaty initiated in Amman yesterday is the most important cornerstone yet of plans for a new Middle East marked by Arab-Israeli trade, integration and regional economic development.

The geographical proximity of the two countries and the opportunities for joint projects in energy, water, tourism and shared use of ports, airports and roads will take the new Middle East beyond the drawing board.

The agreement comes two weeks before Arabs and Israelis are due to meet in Casablanca at a conference to discuss an economic blueprint to cement peace in the Middle East. On the Casablanca agenda are plans to form a regional development bank, initially capitalised at \$10bn, and to raise finance for at least 150 private and public sector projects worth \$25bn (\$15.8bn) in investment over 10 years.

Furthermore, with a second Arab neighbour formally at peace with Israel, economic relations with Egypt, a much larger economy than Jordan, should increase after more than a decade of cold and cautious peace and minimal trade.

"This is an enormously important piece of the economic puzzle," Mr Ehud Kaufman, senior Israeli economic negotiator, said yesterday.

"Jordan is a trading country at the heart of the Middle East with western standards and a desire to boost its economy."

Economic negotiations between Israel and Jordan, backed by detailed plans, are already well advanced and yesterday's agreement will allow for speedy implementation of projects.

First on the agenda is the construction of dams on the Yarmouk and Jordan rivers and a desalination plant at the Sea of Galilee. Under the peace agreement, Israel has promised to raise the finance and, says one official, the European Union has agreed to meet half the costs. There are hopes of finance from the US-backed Overseas Private Investment Corporation.

The second most immediate development will be the wider opening of borders to promote trade and tourism. A new border crossing at Bet Shean



Rabin (left) and Hussein signing a peace treaty yesterday against all the odds

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south of the Sea of Galilee is expected to be opened early next month. The main aim of the crossing, supported by an upgrading of roads, will be to give Jordan access to the Israeli Mediterranean ports of Haifa and Ashdod.

The new crossing, combined with that opened two months ago between Aqaba and Eilat, will also boost tourism. Once the agreement is formally signed, Jordan is expected to lift the ban on Israeli passport holders crossing into Jordan and to speed the movement of vehicles.

Israel last week transferred responsibility for a third crossing at the Allenby bridge from

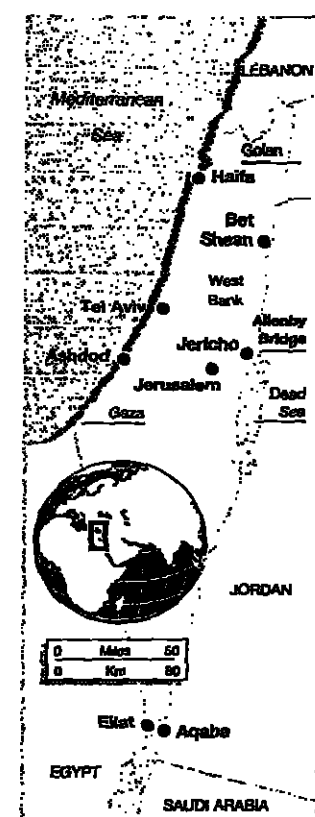
the military to the ministry of transport and Jordan abolished the requirements for special permits to cross the bridge.

In return for Jordanian access to Israel's ports, Israel is hoping for a quick agreement for shared use of Jordan's huge Red Sea port at Aqaba to gain easy access to markets in east Asia. Use of Aqaba would also allow Israel to give scarce land in Eilat, currently used by its port, over to the more profitable and booming Eilat tourism industry.

In trade, Mr Kaufman said yesterday, the agreement would allow Israeli negotiators to move ahead quickly with a formal bilateral trade deal.

Israel has already granted Jordan a preferential trade concession worth \$30m a year for exports into the still Israeli-occupied West Bank.

Mr Kaufman said both sides were committed in principle to a free trade area with the removal of customs barriers but first would conclude an agreed list of products. While Israel would continue to give Jordan preferential trade treatment to support its political courage, he said Israel now wanted a formal agreement to "underscore the fact that the trade boycotts and barriers are removed formally and in practice". Within a few years trade could approach \$1.5bn or \$2bn,



Mr Kaufman said.

Air links between the two states are also expected to be concluded within weeks of the formal signing ceremony. Linking the electricity grids of Israel and Jordan is already under way, starting with Eilat and Aqaba.

Jordan's \$4.5bn economy is dwarfed by Israel's which last year had a gross national product of \$70bn. But the two countries, spurred by the political commitment of their leaders to a new Middle East, are the most likely to develop economic co-operation providing both a vital building block and a model of economic transformation in the region.

Roger Matthews shows just how delicately balanced Arab-Israeli negotiations have proved to be

## Three days is a long time in this peace process

Just how delicately balanced the Middle East peace process remains was never better illustrated than during the past 72 hours. On Friday afternoon it was legitimate to speculate about a possible collapse of the negotiations between Israel and the Palestine Liberation Organisation, with potentially devastating consequences for the entire movement towards a lasting settlement. By yesterday afternoon not only had that fear receded, but the momentum towards peace had gathered pace with the signing of a draft agreement between Israel and Jordan.

The advocates of peace, and its enemies, will both probably have been heartened by events. Hamas, the radical Palestinian faction, will have noted how close it came to provoking Mr Yitzhak Rabin, Israel's prime minister, into breaking off talks with the PLO and forcing a bitter confrontation among the Palestinian community.

Little suits Hamas better than being able to portray Mr Yasser Arafat, the PLO chairman, as a tool of Israeli security policy in repressing Palestinian national ambitions. By first staging a terror attack in the heart of Jerusalem and then kidnapping an Israeli soldier, Hamas got the reaction

More than 5,000 Islamic supporters, some armed, marched through Gaza City yesterday calling for the dismissal of the Palestinian military chief in a continuing upsurge of tension in the Palestinian controlled area, reports Julian Ozzane.

The march followed riots earlier in the day by angry students demonstrating against an internal Palestinian crack down on the extremist Hamas movement responsible for the kidnapping and killing of an Israeli soldier last week.

Hamas has demanded that Mr Yasser Arafat, leader of the Palestine Liberation Organisation, sack Gen Nasr Youssef who last week headed the operation to arrest and question Hamas activists believed to have

from Mr Rabin that it sought. The end to the kidnapping, tragic though it was, would have been so much worse had Hamas been holding the soldier in territory under the control of Mr Arafat's police.

The speed with which Mr Rabin announced the resumption of talks with the PLO, suspended last week, on the holding of elections in the West Bank and Gaza and the further redeployment of Israeli troops, sug-

gests the Israeli government is aware of how dangerously close the peace process had come to breaking down. It was also fortuitous that negotiations with Jordan had progressed to the point that Mr Rabin was able to head almost immediately to Amman where he and King Hussein worked late into Sunday night to complete their agreement.

King Hussein had signalled in June his intention to press ahead with bilateral negotiations. Frustrated by the lack of co-ordination among his Arab negotiating partners, and generally depressed about the political health of the region, King Hussein said he had no option but to concentrate on his own immediate interests. The Jordanians had been angered by the behaviour of Mr Arafat, particularly over future links between the two economies, and were being given little information by the Syrians on the progress of their negotiations with Israel.

"We cannot wait any longer. We have to address the problems which relate to the interests of this country," said King Hussein.

This he has now done. In the process, the king has cemented his rapprochement with the US after the breach caused by the Gulf war, and will probably be successful in winning debt relief on some \$5bn owed to western governments. Simultaneously he has given Israel the satisfaction of having picked off the third of the five Arab nations which had sworn to remain forever united before the Zionist foe. Egypt, the Palestinians and Jordan have all now signed separate deals. Only Syria and Lebanon remain.

On paper, the last stage should not present too formidable an obstacle. The broad outline of an agreement is already well understood by all sides. Syria requires Israel to withdraw totally from the Golan Heights, occupied in 1967. The Lebanese government, which will not act without Syria's blessing, similarly wants Israel to quit territory in the south of its country. Israel is demanding a full normalisation of relations.

The critical issue is over timing. Israel says it must have prior evidence of the Syrian commitment to peace before it will begin a staged withdrawal, which would only be completed over several years. The Syrians, of course, want their land back first.

Given the deeply suspicious nature of Mr Rabin and President Hafez al-Assad of Syria, it was to be expected that the mediation efforts of Mr Warren Christopher, the US secretary of state, would only edge forward slowly. But US officials are confident progress is being made and the most optimistic talk about a breakthrough before the end of the year. Nothing would provide a greater blow to the ambitions of Middle East extremists than the sight of Mr Assad and Mr Rabin shaking hands.

### INTERNATIONAL NEWS DIGEST

## Tokyo surplus down again

Japan's trade surplus continued its slow decline in September, for the second month running, with an unexpectedly large 4.6 per cent annualised fall, to \$11.95bn (\$77.2m). A strong growth in imports, sucked in by Japan's recovering economy, outweighed a rise in exports to the fast-developing markets of Asia and to a strong US economy. It brings the trade gap for the six months to the end of September to \$59.38bn or 0.7 per cent less than the same period of 1993, the first such decline for 3½ years. On a three-month sliding average, which shows a clearer trend for Japan's volatile surplus, the gap, at \$9.4bn, is the lowest since January last year. "It's pretty clear the surplus is declining, though at a painfully slow rate," said Mr Jim Vestal, chief economist at Barclays de Zoete Wedd in Tokyo. The good news was partly undermined by a 12.2 per cent rise in Japan's trade surplus with the US to \$27.08bn in the six months to September, suggesting that yesterday's figure will bring little relief to Japanese industry in the form of a weaker yen. Japanese exports to all destinations in the first six months of the fiscal year rose 8.3 per cent, while imports grew rather faster, by 12.7 per cent. Increased energy use during Japan's unusually hot summer is one reason for the rise in imports. Another is the strong growth in purchases of foreign food, drink, clothing and other consumer goods, where the yen's strength has fed through to bargain prices. Three-quarters of export growth came from sales to other Asian countries, Japan's fastest growing market and investment destination, where the trade surplus for the six months rose to \$31.4bn. This continues a trend started last year, when Japan's surplus with Asia outstripped its surplus with the US for the first time. But so far, Japan's Asian trade gap has produced none of the political problems of its surplus with the US. William Dawkins, Tokyo

### Interest rate controls lifted

Bank interest rates in Japan were yesterday freed from final government controls, as the finance ministry completed a series of deregulation measures begun in 1985. Interest rates on ordinary and savings deposits rose slightly above their previously fixed levels, in line with the general upward drift in market interest rates. Rates on ordinary bank deposits, which were a uniform 0.22 per cent a year, increased to between 0.27 per cent and 0.3 per cent at the country's main commercial banks. Rates on time savings deposits rose by between 0.05 and 0.1 percentage points. Until 1985, virtually all Japanese interest rates were fixed by the government, as it sought to keep both borrowing and lending rates low, to finance the country's post-war economic reconstruction. But, under pressure from foreign governments and financial institutions, the finance ministry allowed a limited deregulation of interest rates that year. A slow, rolling process of deregulation ensued. The deregulation will put further competitive pressure on banks, already weakened by a large stock of bad debts. In future they will be forced to compete more on interest rates than services; in a period of rising rates, that is likely to eat further into their already poor profitability. Gerard Baker, Tokyo

### Japanese bankruptcies decline

Corporate bankruptcies in Japan continue to decline, but those companies that do collapse are getting bigger, according to Teikoku Databank, a credit research agency. The number of companies to close their doors fell by 5.5 per cent from a year earlier to 1,148 in September, but the trend must be seen in a row. But their debts piled up by 30.2 per cent to ¥688bn (\$3.8bn), the highest this year, a sign of how companies damaged in the recession can easily be brought down by the strains on working capital imposed by even a gentle upturn. A handful of large corporate collapses was to blame, including the ¥100bn failure of Fuyo, a property developer, and a rise in bankruptcies in construction and manufacturing, Teikoku says. Of the total, 702 bankruptcies were caused by recession, while a surprisingly low 10 casualties were attributed to the strength of the yen. William Dawkins, Tokyo

### Telecom networks in Africa

A unit of Japan's Nippon Telegraph and Telephone is joining a project of California's Stanford University to set up telecommunications networks in Africa using optical fibre networks and satellites. Nippon Telegraph and Telephone International and Hughes Aircraft of the US agreed to join Afronet, a company set up in June by Stanford's Satellite Planning Centre. The company would provide consulting services for the construction and management of telecommunications networks in African countries. Separately, Tunisia and AT&T of the US are discussing a cable project around the African continent. Reuter, Tokyo

### Iraq considers border issue

Iraq's People's Assembly yesterday gathered for an extraordinary, secret session, amid speculation that it was about to approve the recognition of United Nations demarcated borders with Kuwait and the Gulf state's sovereignty - a fundamental UN Security Council precondition for any moves towards the easing of sanctions. The hastily-called meeting was expected to deliver an official recognition of Kuwait's sovereignty and borders in the terms required by this weekend's Security Council resolution, which called on Iraq to make the recognition through "full and formal constitutional procedures". No announcement was forthcoming at the end of the meeting. In New York, Mr Andrei Kozyrev, the Russian foreign minister, reported formally to the UN security council on his Baghdad talks and reiterated Moscow's view that the private sector should consider lifting the oil embargo in about six months if Iraq showed honest co-operation and followed through with recognition of Kuwait's borders. Ms Madeline Albright, the US delegate, responded that the crisis created by the recent Iraqi troop deployments was still not over. As for promises made to Mr Kozyrev America placed no more value on these than on previous Iraqi pledges. The council should categorically reject any idea of rewarding Iraq for "partial compliance with some of its obligations," she said, citing a list of other requirements under UN resolutions. Mark Nicholson, Baghdad and Michael Littlejohns, New York

### Indonesia looking for \$50bn

Indonesia will need more than \$50bn (\$33.3bn) in infrastructure investment over the next five years, President Suharto said at the opening of the world infrastructure forum Asia, which the Indonesian government is hosting this week. "We hope most of this investment is borne by the private sectors, both domestic and foreign," he said. According to a government report Indonesia needs the private sector to invest at least \$18bn in infrastructure projects over the next five years. That investment will be channelled mainly into toll roads, container ports, airports, power plants, housing and water supplies. In June, the government unveiled a deregulation package for foreign investment which opened up most of these sectors to foreign capital. Manuela Saragosa, Jakarta

### Suharto trial is postponed

President Suharto yesterday forced the postponement of his own trial in a landmark suit charging him with diverting state funds meant for preservation of Indonesia's rain forests. As no presidential lawyer turned up for the hearing on the opening day of the trial, Judge Benyamin Mangundilaga of Jakarta's State Administrative Court said he had no option but to put it off until Oct. 31. Mr Suharto is not expected to testify in the trial, the first time he has been taken to court in his three decades of power. The suit, filed by six environmental groups in August, accuses Mr Suharto of ignoring ecological concerns by diverting \$18.7m in state forestry funds as an interest-free loan to the state-owned Indonesian aircraft industry for a project to develop a passenger plane. The prototype of the 64-seat turboprop plane is scheduled to roll out of the plant next month, coinciding with a summit of heads of state from the Asia Pacific Economic Cooperation forum. Reuter, Jakarta

## China air traffic accord with US

By Tony Walker in Beijing

China and the US yesterday agreed to co-operate in converting the Chinese military-dominated air traffic control system to civilian management under an agreement signed by senior US and Chinese officials.

Mr William Perry, the US defence secretary, and Mr Ding Hengshan, minister of the Commission of Science, Technology and Industry for National Defence, agreed to "pursue preliminary co-operation in air traffic control systems and technology."

The signing follows the Sino-US decision earlier this year to establish a Joint Defence Conversion Commission to provide a framework for co-operation in transforming military industries to civilian use.

Mr Perry and his Chinese counterparts were seeking improved defence co-operation as part of attempts to enhance Sino-US relations. Other issues discussed by the US defence secretary and Chinese officials included human rights, North Korea and non-proliferation of nuclear technology.

The US had identified air traffic control, exacerbated by confusion between civilian and military controllers, as a priority because of China's poor safety record.

At present, China's military controls 90 per cent of the skies, with civilian controllers playing a limited role.

US officials did not go into details, but the transformation of China's chaotic air traffic control system will lead to greater involvement of US

companies in the building of a modern network.

Mr Perry arrived in China on Sunday at the start of a four-day visit aimed at consolidating a recent improvement in Sino-US relations. But US officials made it clear that an embargo on arms sales to China would be maintained.

Imposition of sanctions on sales of military equipment followed the bloody events of 1989, when the military turned its guns on pro-democracy protesters in Beijing.

Chinese media hailed the visit, saying it marked the "resumption of high-level contacts between the two countries." US officials expressed satisfaction with the wide-ranging discussions, which included human rights issues.

Mr Perry spent two hours in talks with General Chi Haotian, his Chinese counterpart. These discussions will continue over the next few days. Guy de Jonquieres, Business Editor, adds: Mr Richard Needham, Britain's trade minister, has cancelled plans to visit three Chinese provinces this month after being told by Beijing that his visit was "inopportune."

The move appears intended to undermine Beijing's continuing anger at political reforms in Hong Kong instituted by Mr Chris Patten, the colony's governor. However, the Department of Trade and Industry in London was playing down the significance of the incident. It said ministerial visits were always subject to last-minute change and Mr Needham had known the visit was not going ahead before he left for a Far East tour at the weekend.

## Kenya central bank comes under attack from angry exporters

The central bank of Kenya has come under siege from trade exporters who claim a rapid appreciation of the Kenya shilling is strangling their exports of fresh vegetables and cut flowers to European markets.

Since the abolition of foreign exchange controls 12 months ago, the Kenyan currency has strengthened by more than 30 per cent against the dollar. A wave of speculative capital has come from abroad, chasing high-yielding Treasury bills which offer some of the best rates of return in the world.

Exporters complain they are shouldering the cost of the government's inability to bring its budget deficit, and the inefficiencies of its large parastatal sector, under control.

"Interest rates must come down," says Mr Richard Evans (113m)-a-year sales of fresh horticultural produce to Marks and Spencer in the UK.

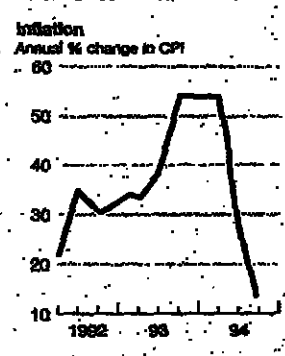
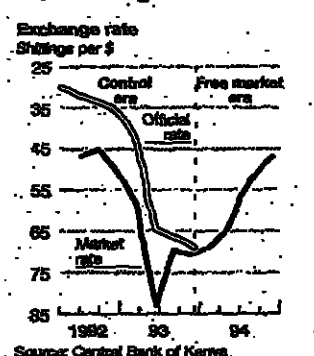
"Speculators are making windfall profits on Kenyan Treasury bills, while my earnings are down by 30 per cent." Smaller export-oriented companies, he adds, are on the brink of disaster.

The predicament of Kenya's horticulture exporters, who are the third largest export earners after tourism and coffee, poses an unprecedented challenge for Mr Mich Cheserem, central bank governor.

If it were not for the bank's frequent interventions in the foreign market to buy surplus dollars, the shilling would be even stronger than it is.

But the central bank has already accumulated \$800m of

### The shilling: further intervention ruled out



reserves, enough to cover six months' imports, and ruled out any more interventions, to stabilise the currency market.

The unexpected dollar boom marks a dramatic turn of events. Only last year, the Kenyan government was forced to reschedule \$500m of debt arrears.

ment in Kenya's economy, which has seen no significant growth in over two years.

"When inflation reaches single digits," Mr Cheserem says, "we will see a revival in economic activity, and the greater demand for imports should ease the dollar glut."

Kenya will be hosting an investors' conference in London next month, during which its rapid progress in deregulating the economy will be on display. Import curbs have been abolished, the currency is now freely convertible, and a host of incentives are in place to attract foreign investors.

Doubts persist, however, about the willingness of President Daniel arap Moi's government to tackle more fundamental reforms.

Little progress has been made in the programme to pri-



Arap Moi: upsurge of unrest



## NEWS: WORLD TRADE

## Honda to double Thai capacity

By Michio Nakamoto in Tokyo and Victor Mallet in Bangkok

Honda is investing more than ¥10bn (\$100m) in a new car-making plant in Thailand, a move which will double its Thai capacity and may lead to the production of a small, popular car for Asia, the company announced yesterday. A ground-breaking ceremony for the new press-stamping factory near Ayutthaya, 70km north of Bangkok, is to take place next week.

The plant, which should be completed in early 1996, will incorporate research and development capability, according to the Japanese vehicle maker.

The decision to double capacity reflects both the rapid growth of the Thai domestic market for cars and Thailand's campaign to become a regional automotive centre by welcoming foreign manufacturers with investment incentives.

"Thailand is one of the best potential markets in Asia," Mr Tetsuo Honda, a Honda executive in Bangkok, said yesterday. China, Indonesia, and India were also promising markets in the longer term, he said.

Honda in Thailand does not make the pick-up trucks which at present account for more than half the vehicles sold in the country. With only a 7.4 per cent share of the total

Thai vehicle market, it lags behind the four dominant Japanese manufacturers: Toyota, Isuzu, Nissan and Mitsubishi.

But sales of Honda passenger cars, most of them Civics and Accords assembled at an existing plant in Thailand, have surged 60 per cent in the first nine months of this year to reach 26,000 units, giving Honda a 23 per cent share of Thai passenger car market - second only to Toyota.

With increasing spending power and growing wealth in the population, the Thai passenger car market is expected to grow strongly to reach about 400,000 units by the end of the decade, Honda said. The market grew

rapidly from 67,000 units sold in 1991 to 174,000 units last year, although it has declined by 14 per cent in the first nine months of 1994.

"Currently the pick-up market is bigger than the passenger car market," said Mr Honda, "but the desire of mankind is for more speedy and more comfortable transport. This kind of desire is unlimited. This is the market trend."

Honda expects its expanded Thai manufacturing facility to be one of the recipients of vehicle components it will produce in China under a joint venture arrangement with a Chinese parts maker which it announced last week.

Toyota of Japan is considering increasing vehicle production capacity at its Indonesian and Philippines units to an annual 150,000 and 50,000 vehicles respectively by 1997, Reuter reports from Tokyo.

Such a move would double its combined vehicle production in south-east Asian countries to an annual 520,000 in 1997, a spokesman said. In 1993, Toyota produced 24,799 vehicles in the Philippines, 51,535 in Indonesia, 114,732 in Thailand, 52,928 in Taiwan and 13,488 in Malaysia. In February 1993, Toyota said its Thai unit Toyota Motor Thailand in Samut Prakan, east Thailand, would invest about \$5m (about \$30m) over the next four years to double car production capacity to 200,000 and set up a training centre for service technicians.

## WORLD TRADE NEWS DIGEST

## Cambodia plant for Heineken

Heineken, the Dutch brewer, is planning to build the first brewery majority-owned by foreign shareholders in Cambodia. The brewery in Phnom Penh will have an initial capacity of 170,000 hectolitres when completed in mid-1996 at a cost of \$25m. Cambodia's beer market was equal to 180,000hl in 1993 - about 2 litres per capita - but is expected to grow to 270,000hl by the end of the decade. The capacity of the brewery could be gradually expanded to 500,000hl to meet demand. The country has only one brewery, Heineken said.

The Dutch beer group and its Singapore-based partners Fraser & Neave will own 80 per cent of the brewery, to be called Cambodia Brewery, through their existing joint venture Asia Pacific Breweries (APBL). The remainder will be owned by Progress Import and Export, the Cambodian importer of APBL's Tiger beer brand. The Cambodian brewery will produce Tiger beer as well as ABC Stout, another APBL brand. Ronald van der Krol, Amsterdam

## Greek casino licences awarded

Greece's tourism ministry has awarded four casino licences to international operators for a total of Dr13.3bn (\$55m) in fees and taxes. Hyatt Casinos, the gaming arm of the US-based Hyatt International hotel chain, in a joint venture with two Greek concerns, Theodorakis and the Laskaridis shipping group, is to pay Dr7.8bn for a licence to build a casino at Thessaloniki in northern Greece.

The group plans a \$120m investment on a greenfield site, including a luxury hotel and conference centre. Hyatt is also bidding against London Clubs, the UK casino operator, for another casino licence in the Athens area which will cost at least Dr1.5bn. Lady Luck of the US is to pay Dr3.05bn for licences to open casinos at Patras and Loutraki. The fourth licence, for Dr1bn, was awarded to Porto Carras Hotel owned by the Carras shipping family, in association with Magic, a US gaming concern which operates river-boat gambling on the Mississippi. The Greek government will take 30 per cent of the casinos' gross earnings, estimated at over Dr60bn yearly. The licences will be valid for 12 years. Kerin Hope, Athens

## Boost for Tunisian telecoms

Tunisia is planning to spend an average of \$200m a year on modernising its telecommunications system. Among projects under way or planned for the next few years are investments in telephone lines and exchanges, optic fibre links, a GSM (Groupe Special Mobile) standard digital mobile phone system and a rural phone system. Tunisia is already linked to the world's longest Optical Submarine communications system connecting south-east Asia, the Arabian peninsula and western Europe. It also invested \$8m in a submarine optic fibre cable linking it to eastern Europe, the Americas and South Africa. Reuter, Tunis

## Contracts and ventures

The Italian transport ministry has signed a L1,200bn (\$762m) contract to buy 30 high-speed Etr 500 trains from the Trevi consortium grouping ABB and Fiat. The purchases are within an option to buy 100 high-speed trains. Reuter, Rome

South Korea's Daewoo Motor will export about 20,000 passenger cars to Romania's Automobile Craiova next year in preparation for the completion of a joint-venture factory in Romania. Daewoo Motor, the nation's third largest car maker, will export its Lemans, Cielo and Espero to the Romanian company Automobile Craiova. AP-D, Seoul

The Saudi Public Transport Company has bought 200 new buses worth SR200m (\$53m) from the German private company Neoplan sold 100 buses and Mercedes-Benz another 100, all for December delivery. Reuter, Marmara

US-based Raychem and Taiwan's Pacific Electric Wire and Cable have signed contracts jointly to invest \$130m (\$12m) in an electric wire and cable plant. The 50/50 venture will build its plant in the northern Hsinchu Science Park, and begin production in the second half of 1995. Reuter, Taipei

Singapore Airlines is discussing joint venture possibilities with at least two Chinese airlines, the Sichuan-based China Southern Airlines and China Eastern Airlines, both of which are relatively new regional carriers. AFP, Singapore

Hutchinson Whampoa has formed a consortium with British Airways and the Civil Aviation Administration of China to bid for an aircraft lease and base maintenance contract at Hong Kong's new Chek Lap Kok airport. The new consortium, China Aircraft Services, is one of three bidders for a maintenance licence. Reuter, Hong Kong

Malaysia's Projek Penyelenggaraan Lebuhaya (Propel) has won a contract to build a \$350m expressway linking the Indonesian capital Jakarta to Surabaya. Reuter, Kuala Lumpur

## Mitsubishi to launch Dutch-made hatchback

By Kevin Done, Motor Industry Correspondent

Mitsubishi Motors is to begin its first car production in Europe in the first half of next year at its joint venture plant in the Netherlands. Mr Hiroshi Ninomiya, president of Mitsubishi Motor Sales Europe, said last night.

The company aims to achieve production of up to 100,000 Mitsubishi cars a year by 1997 at the Nedcar plant, which it owns jointly with Volvo, the Swedish carmaker, and the Dutch government, each holding a one-third stake.

The partners are investing Fl.3.4bn (\$1.9bn) in the project to modernise the former Volvo

Car BV plant at Born in the Netherlands in order to create a total capacity to produce 200,000 cars a year, which will be shared equally by Mitsubishi and Volvo.

Mr Ninomiya disclosed in a speech at the Birmingham motor show that Mitsubishi would initially launch from the UK from November next year. The Volvo version of the new range, which is expected eventually to replace the current Dutch-built Volvo 460, will have a different exterior and interior styling and is expected to be unveiled in the autumn next year.

Mitsubishi is following the same strategy as its Japanese competitors by choosing the

European-built products of other Japanese carmakers such as the Nissan Primera and the Toyota Carina, both assembled in the UK.

The new car will be unveiled at the Amsterdam motor show in January and will go on sale in continental European markets from mid-1995 and in the UK from November next year. The Volvo version of the new range, which is expected eventually to replace the current Dutch-built Volvo 460, will have a different exterior and interior styling and is expected to be unveiled in the autumn next year.

Mitsubishi is following the same strategy as its Japanese competitors by choosing the

large family car sector of the European car market for its first locally-built products in Europe. Mr Ninomiya said the local European content of the new Mitsubishi range would exceed 85 per cent.

Purchases from component suppliers in Europe for the Mitsubishi car alone are expected to total more than Fl.1bn a year by the time output reaches 100,000 cars a year, the company said yesterday. More than 150 suppliers have already been selected in Europe, including some local European subsidiaries of Japanese components groups, such as Calsonic in the UK, which will supply radiators and cooling systems.

Mitsubishi plans to import all its petrol engines (in 1.6 and 1.8 litre) and automatic gearboxes from Japan, but it is understood that it will buy a 1.9 litre diesel engine and all its manual gearboxes from Renault, the French carmaker.

Mr Ninomiya said that Mitsubishi had drawn heavily on the latest Japanese production technology to modernise the Dutch plant, organised along the lines of its Mizushima plant in Japan.

Mitsubishi said it planned initially to achieve around 20 hours per car assembly time at the Born plant, but this would be reduced later to 17 hours per car when full capacity was reached. It would take around

7 minutes to change the tools on the heavy stamping presses. The plant will include 305 robots.

Around half of the Fl.3.4bn earmarked for the Nedcar project had been invested to date. Mr Ninomiya said Mitsubishi Motors, the third largest Japanese vehicle producer, was seeking a 5 per cent share of the global vehicle market by 2000.

To achieve this goal it was aiming to raise its share of the domestic Japanese market from 13 to 15 per cent, to increase its share of the Asian and Asean market from 20 to 25 per cent and to gain a 2 per cent share of the combined European and US markets.

## E Asia and EU may hold talks

By Guy de Jonquieres, Business Editor

The European Union and east Asian countries may hold a summit late next year at which government leaders would aim to forge closer economic and trade ties between the two regions, according to European Commission officials.

The EU also plans to renew attempts to establish a dialogue with the Asia Pacific Economic Co-operation forum, the five-year-old grouping which embraces the US, Canada, Mexico, Australia and New Zealand as well as Japan and 11 other Asian countries.

The initiatives are intended to accelerate recent efforts to deepen relations between Europe and Asia, amid growing European fears of being excluded from developments in the world's fastest-growing economic region.

Until now, most of the running has been made by the Europeans. However, EU officials say the proposal for a summit is Asian-inspired, and has been backed particularly strongly by Singapore and Thailand. The proposal has yet to be placed formally on the EU agenda but may be raised

during a visit to Paris this week by Mr Goh Chok Tong, Singapore's prime minister.

As president of the EU Council of Ministers in the first half of next year, France would be closely involved in preparing the ground for a summit. Germany, the current council president, has called for stronger EU links with Asia.

A senior European Commission official said yesterday that if the summit went ahead, participants would be likely to include government leaders from Japan, Taiwan and Korea, as well as from the six members of the Association of South East Asian Nations.

The official said the meeting was envisaged as a relatively informal event which would seek to encourage increased trade and investment between Europe and Asia and closer co-operation between governments of the two regions in the new World Trade Organisation.

Talks with Asian leaders would also bolster European efforts to establish closer contacts with Apec, which is expected to agree a timetable for trade liberalisation by its members at a summit meeting in Bogor, Indonesia, next month.

## Gold mining companies' reports for the quarter ended 30 September 1994

## Blyvooruitzicht Gold Mining Company, Limited

OPERATING RESULTS	30-9-1994	30-9-1994
Underground operations		
One milled - T000	228	291
Gold produced - kg	1,287	1,589
Yield - g/t	6.04	5.31
Revenue - R/kg	44,789	40,847
Cost - R/kg	40,261	44,920
Working loss - R/kg	3,543	3,005
Revenue - R/t milled	292.86	261.65
Cost - R/t milled	272.26	298.25
Working loss - R/t milled	20.00	16.24
Surface operations		
Tonnage treated - T000	316	348
Gold produced - kg	118	150
Yield - g/t	6.26	4.31
Revenue - R/kg	44,789	41,812
Cost - R/kg	39,888	18,912
Working profit - R/kg	21,872	23,898
Revenue - R/t milled	16,325	17,181
Cost - R/t milled	8.45	7.26
Working profit - R/t milled	7.87	9.92
FINANCIAL RESULTS (R000s)		
Revenue	62,796	64,418
Cost	64,842	65,047
Working loss	(2,046)	(629)
Tribute recoveries (payments)	421	(1,736)
Working loss	(1,625)	(2,365)
Hedging contribution costs	4,800	4,800
Sundry revenue - net	1,708	1,288
Loss before taxation	(1,917)	(1,877)
Taxation	-	17
Loss after taxation	(1,917)	(1,860)
Capital expenditure - net	7,298	3,854

OPERATIONS  
The decline in underground yield was not anticipated and steps are being taken to address the situation.

DISCUSSION  
A substantial restructuring of the operations has commenced with representatives of employees.

HEDGING  
To enable the company to obtain maximum benefit from the gold price all outstanding hedging contracts have been cancelled at a cost of R2.5 million.

CAPITAL EXPENDITURE  
Capital expenditure includes R1.5 million (previous quarter: R1.4 million) for the company's contribution for development related to the Western Deep Levels Tribunal.

There are commitments for capital expenditure amounting to R2.0 million (previous quarter: R2.1 million).

For and on behalf of the board,  
J. P. S. TURNER, Chairman  
E. B. CROCKER, Managing Director

18 October 1994

## East Rand Proprietary Mines, Limited

OPERATING RESULTS	30-9-1994	30-9-1994
Underground operations		
One milled - T000	354	344
Gold produced - kg	1,099	1,034
Yield - g/t	6.42	6.12
Revenue - R/kg	44,789	42,722
Cost - R/kg	40,887	40,882
Working loss - R/kg	1,118	918
Revenue - R/t milled	292.86	267.71
Cost - R/t milled	257.71	257.71
Working loss - R/t milled	35.15	35.15
Surface operations		
Tonnage treated - T000	860	860
Gold produced - kg	324	324
Yield - g/t	0.30	0.30
Revenue - R/kg	44,789	42,722
Cost - R/kg	22,224	22,224
Working profit - R/kg	22,565	20,498
Revenue - R/t milled	22,565	20,498
Cost - R/t milled	13.28	14.21
Working profit - R/t milled	13.28	13.49
FINANCIAL RESULTS (R000s)		
Revenue	60,802	70,448
Cost	64,842	65,047
Working loss	4,040	(4,599)
Abnormal item	-	25,720
Sundry revenue - net	3,106	2,682
Interest paid and deferred	32	70
Profit before taxation	2,682	23,870
Transition loss	128	208
Profit after taxation	2,554	23,662
Capital expenditure - net	6,288	10,444
Social dividend	-	11,948

OPERATIONS  
Production improved during the quarter and a further improvement is expected in the next quarter although the drift will be lower than in the first quarter.

An underground drilling programme has commenced in substantial previous geological and geotechnical studies regarding the revenue and price of the proposed central shaft and geological structures determined by seismic analysis. The results of the programme will confirm whether the development of the tertiary shaft will be necessary or whether the area can be accessed by the extension of the existing inclined shaft, with consequent savings. This drilling programme is expected to be substantially completed at the end of the first quarter of 1995.

FINANCIAL ASSISTANCE  
Assistance totaling R1.5 million (previous quarter: R1.5 million) for the purchase of equipment was claimed from the State during the quarter. Working costs have been reflected net of this assistance.

CAPITAL EXPENDITURE  
There are commitments for capital expenditure amounting to R11.1 million (previous quarter: R9.2 million).

For and on behalf of the board,  
J. P. S. TURNER, Chairman  
F. ARNOT, Managing Director

18 October 1994

## Harmony Gold Mining Company Limited

OPERATING RESULTS	30-9-1994	30-9-1994
Underground operations		
One milled - T000	1,088	1,078
Gold produced - kg	6,189	6,228
Yield - g/t	5.73	5.81
Revenue - R/kg	40,118	39,497
Cost - R/kg	37,182	36,498
Working profit - R/kg	2,936	2,999
Revenue - R/t milled	126.10	126.10
Cost - R/t milled	115.70	115.70
Working profit - R/t milled	10.40	10.40
Surface operations		
Tonnage treated - T000	95	44
Gold produced - kg	327	118
Yield - g/t	3.45	2.68
Revenue - R/kg	42,122	40,847
Cost - R/kg	18,674	16,867
Working profit - R/kg	23,448	23,980
Revenue - R/t milled	61.73	108.78
Cost - R/t milled	36.11	41.71
Working profit - R/t milled	25.62	67.06
FINANCIAL RESULTS (R000s)		
Revenue	267,041	218,287
Cost	238,519	238,022
Working profit	28,522	18,265
Sundry revenue - net	3,782	3,165
Profit before taxation	32,304	21,431
Taxation	2,919	614
Profit after taxation	29,385	20,817
Capital expenditure - net	3,506	6,804

Further to the announcement on 18 September 1994, the Memorandum number 1 about 1.5 million shares of the company to be issued in the form of a bonus issue of shares, totaling some R3 million, will affect the next quarter.

DISCUSSION  
To enable the company to obtain maximum benefit from the gold price all outstanding hedging contracts were cancelled by taking out counter positions. The total cost amounted to R2.5 million.

CAPITAL EXPENDITURE  
There are commitments for capital expenditure amounting to R3 million (previous quarter: R3.2 million) capital expenditure is reduced out of the proceeds from sale of assets which amount to R2.5 million, compared with R0.4 million in the preceding quarter.

For and on behalf of the board,  
J. P. S. TURNER, Chairman  
E. B. CROCKER, Managing Director

18 October 1994

## Durban Roodepoort Deep, Limited

OPERATING RESULTS	30-9-1994	30-9-1994
Underground operations		
One milled - T000	81	228
Gold produced - kg	1,088	1,078
Yield - g/t	6.42	6.12
Revenue - R/kg	44,789	42,722
Cost - R/kg	40,887	40,882
Working loss - R/kg	1,118	918
Revenue - R/t milled	292.86	267.71
Cost - R/t milled	257.71	257.71
Working loss - R/t milled	35.15	35.15
Surface operations		
Tonnage treated - T000	342	389
Gold produced - kg	184	237
Yield - g/t	5.39	6.09
Revenue - R/kg	40,118	39,497
Cost - R/kg	37,182	36,498
Working profit - R/kg	2,936	2,999
Revenue - R/t milled	126.10	126.10
Cost - R/t milled	115.70	115.70
Working profit - R/t milled	10.40	10.40
FINANCIAL RESULTS (R000s)		
Revenue	267,041	218,287
Cost	238,519	238,022
Working profit	28,522	18,265
Sundry revenue - net	3,782	3,165
Profit before taxation	32,304	21,431
Taxation	2,919	614
Profit after taxation	29,385	20,817
Capital expenditure - net	3,506	6,804

OPERATIONS  
The reduction in underground production is consistent with the restructuring of the operation to a level of 80,000 tons per quarter. This restructuring involves the restructuring of 4,000 employees, at a cost of R16.7 million.

CLOSURE OF THE UNDERGROUND OPERATIONS WILL NOT OCCUR AND DISCUSSIONS REGARDING THE POSSIBLE MERGER WITH RAMP LASSES ARE CONTINUING.

The sale of assets has been temporarily terminated. A facility of R10 million has been negotiated and will be used for the purpose of remuneration and interest funding.

PUMPING ASSISTANCE  
Assistance totaling R1.9 million (previous quarter: R2.0 million) for pumping of groundwater was claimed from the State during the quarter. Working costs have been reflected net of this assistance. Negotiations regarding ongoing pumping assistance are in progress.

CAPITAL EXPENDITURE  
There were no capital commitments at the end of this quarter.

For and on behalf of the board,  
J. P. S. TURNER, Chairman  
R. A. R. KESSEL, Managing Director

18 October 1994

## INTERNATIONAL ECONOMIC INDICATORS: BALANCE OF PAYMENTS

Trade figures are given in billions of European currency units (ECU). The ECU exchange rate shows the number of national currency units per ECU. The nominal effective exchange rate is an index with 1985=100.

UNITED STATES					JAPAN					GERMANY					
Exports	Imports	Current account balance	ECU exchange rate	Effective exchange rate	Exports	Imports	Current account balance	ECU exchange rate	Effective exchange rate	Exports	Imports	Current account balance	ECU exchange rate	Effective exchange rate	
1985	278.8	-174.2	-154.5	0.7823	100.0	230.8	76.0	154.8	100.0	242.7	33.2	21.7	2,220	100.0	
1986	271.8	-140.8	-153.7	0.9388	80.2	211.1	96.2	115.0	165.1	124.4	248.5	53.4	40.3	2,127.9	100.0
1st qtr-1986	220.2	-131.5	-144.1	70.3	197.3	88.1	75.3	106.58	133.2	172.6	51.6	39.6	1,970.1	115.0	100.0
2nd qtr-1986	272.2	-100.2	-108.3	1.1833	66.0	218.8	80.7	68.7	147.3	141.9	270.2	65.4	52.7	2,031.1	100.0
3rd qtr-1986	323.5	-96.3	-93.3	1.0171	65.1	245.3	70.5	52.6	187.7	141.9	310.2	65.4	52.7	2,031.1	100.0
4th qtr-1986	303.0	-79.3	-72.7	1.2847	65.1	224.0	50.1	28.3	134.8	126.0	320.4	11.5	-15.0	2,031.1	100.0
1987	340.5	-53.5	-55.6	1.2951	65.1	247.4	83.1	29.7	144.0	126.0	320.4	11.5	-15.0	2,031.1	100.0
1988	345.9	-53.2	-52.4	1.2875	65.1	255.0	101.7	90.0	180.45	142.9	330.6	15.8	-17.0	1,918.7	100.0
1989	397.3	-87.7	-88.8	1.1705	65.8	300.0	120.9	111.2	130.21	173.38	323.1	30.0	-17.2	1,933.2	100.0
1st qtr-1989	95.5	-27.5	-24.3	1.1443	65.4	78.1	32.2	28.2	120.89	163.7	81.1	5.9	-9.0	1,918.0	123.0
2nd qtr-1989	96.0	-25.0	-26.0	1.1441	70.3	75.6	30.3	26.9	132.00	180.2	81.7	9.7	-5.3	1,918.0	123.0
3rd qtr-1989	106.9	-28.9	-28.7	1.1244	66.8	81.1	32.0	30.0	132.00	180.2	81.7	9.7	-5.3	1,918.0	123.0
4th qtr-1989	107.7	-32.7	-31.9	1.1606	65.3	81.7	31.5	29.5	119.84	167.1	89.8	11.2	-3.9	1,937.6	123.0
1990	107.7	-32.7	-31.9	1.1606	65.3	81.7	31.5	29.5	119.84	167.1	89.8	11.2	-3.9	1,937.6	123.0
1st qtr-1990	32.9	-8.0	n.a.	1.1728	64.7	25.9	10.7	9.5	123.63	181.6	27.4	1.9	-1.8	1,899.6	128.0
2nd qtr-1990	34.5	-8.3	n.a.	1.1587	68.5	24.8	9.8	9.9	124.03	180.4	27.4	1.9	-1.7	1,899.6	128.0
3rd qtr-1990	36.1	-8.2	n.a.	1.1362	68.7	25.2	10.2	9.5	121.86	181.7	27.8	3.1	-0.9	1,918.2	124.0
4th qtr-1990	36.9	-8.9	n.a.	1.1287	67.0	25.7	10.6	10.2	117.7	178.5	27.8	3.1	-0.9	1,918.2	124.0
January 1994	35.2	-8.7	n.a.	1.1189	67.5	27.2	11.3	11.2	124.03	171.0	26.8	3.1	-1.9	1,941.1	122.0
February	34.1	-10.8	n.a.	1.1287	66.7	27.2	11.3	10.1	117.77	185.2	26.8	3.2	-2.3	1,939.7	121.0
March	37.5	-8.4	n.a.	1.1410	66.1	27.2	10.8	10.0	121.06	186.8	28.1	1.6	-1.0	1,939.7	122.0
April	38.1	-10.6	n.a.	1.1386	68.0	27.6	11.3	10.9	117.79	188.3	28.1	1.6	-1.0	1,939.7	122.0
May	35.4	-11.1	n.a.	1.1192	65.3	28.1	9.5	8.6	120.67	186.2	30.6	3.0	-2.3	1,929.5	124.0
June	36.3	-11.0	n.a.	1.1608	64.6	28.0	9.8	10.0	120.04	187.3	30.6	3.6	0.2	1,929.5	124.0
July	33.8	-12.0	n.a.	1.2187	63.0	28.6	11.1	9.9	120.00	191.5	30.6	3.6	0.2	1,929.5	124.0
August	33.8	-12.0	n.a.	1.2186	63.1	26.9	9.2	7.6	121.85	188.7	30.6	3.6	0.2	1,929.5	124.0
1991	33.8	-12.0	n.a.	1.2186	63.1	26.9	9.2	7.6	121.85	188.7	30.6	3.6	0.2	1,929.5	124.0
1st qtr-1991	103.7	-18.0	-5.4	1.443.0	100.0	103.7	-18.0	-5.4	1.443.0	100.0	103.7	-18.0	-5.4	1.443.0	100.0
2nd qtr-1991	103.7	-18.0	-5.4	1.443.0	100.0	103.7	-18.0	-5.4	1.443.0	100.0	103.7	-18.0	-5.4	1.443.0	100.0
3rd qtr-1991	103.7	-18.0	-5.4	1.443.0	100.0	103.7	-18.0	-5.4	1.443.0	100.0	103.7	-18.0	-5.4	1.443.0	100.0
4th qtr-1991	103.7	-18.0	-5.4	1.443.0	100.0	103.7	-18.0	-5.4	1.443.0	100.0	103.7	-18.0	-5.4	1.443.0	100.0
1992	103.7	-18.0	-5.4	1.443.0	100.0	103.7	-18.0	-5.4	1.443.0	100.0	103.7	-18.0	-5.4	1.443.0	100.0
1st qtr-1992	103.7	-18.0	-5.4	1.443.0	100.0	103.7	-18.0	-5.4	1.443.0	100.0	103.7	-18.0	-5.4	1.443.0	100.0
2nd qtr-1992	103.7	-18.0	-5.4	1.443.0	100.0	103.7	-18.0	-5.4	1.443.0	100.0	103.7	-18.0	-5.4	1.443.0	100.0
3rd qtr-1992	103.7	-18.0	-5.4	1.443.0	100.0	103.7	-18.0	-5.4	1.443.0	100.0	103.7	-18.0	-5.4	1.443.0	100.0
4th qtr-1992	103.7	-18.0	-5.4	1.443.0	100.0	103.7	-18.0	-5.4	1.443.0	100.0	103.7	-18.0	-5.4	1.443.0	100.0
1993	103.7	-18.0	-5.4	1.443.0	100.0	103.7	-18.0	-5.4	1.443.0	100.0	103.7	-18.0	-5.4	1.443.0	100.0
1st qtr-1993	103.7	-18.0	-5.4	1.443.0	100.0	103.7	-18.0	-5.4	1.443.0	100.0	103.7	-18.0	-5.4	1.443.0	100.0
2nd qtr-1993	103.7	-18.0	-5.4	1.443.0	100.0	103.7	-18.0	-5.4	1.443.0	100.0	103.7	-18.0	-5.4	1.443.0	100.0
3rd qtr-1993	103.7	-18.0	-5.4	1.443.0	100.0	103.7	-18.0	-5.4	1.443.0	100.0	103.7	-18.0	-5.4	1.443.0	100.0
4th qtr-1993	103.7	-18.0	-5.4	1.443.0	100.0	103.7	-18.0	-5.4	1.443.0	100.0	103.7	-18.0	-5.4	1.443.0	100.0
1994	103.7	-18.0	-5.4	1.443.0	100.0	103.7	-18.0	-5.4	1.443.0	100.0	103.7	-18.0	-5.4	1.443.0	100.0
1st qtr-1994	103.7	-18.0	-5.4	1.443.0	100.0	103.7	-18.0	-5.4	1.443.0	100.0	103.7	-18.0	-5.4	1.443.0	100.0
2nd qtr-1994	103.7	-18.0	-5.4	1.443.0	100.0	103.7	-18.0	-5.4	1.443.0	100.0	103.7	-18.0	-5.4	1.443.0	100.0
3rd qtr-1994	103.7	-18.0	-5.4	1.443.0	100.0	103.7	-18.0	-5.4	1.443.0	100.0	103.7	-18.0	-5.4	1.443.0	100.0
4th qtr-1994	103.7	-18.0	-5.4	1.443.0	100.0	103.7	-18.0	-5.4	1.443.0	100.0	103.7	-18.0	-5.4	1.443.0	100.0
1995	103.7	-18.0	-5.4	1.443.0	100.0	103.7	-18.0	-5.4	1.443.0	100.0	103.7	-18.0	-5.4	1.443.0	100.0
1st qtr-1995	103.7	-18.0	-5.4	1.443.0	100.0	103.7	-18.0	-5.4	1.443.0	100.0	103.7	-18.0	-5.4	1.443.0	100.0
2nd qtr-1995	103.7	-18.0	-5.4	1.443.0	100.0	103.7	-18.0	-5.4	1.443.0	100.0	103.7	-18.0	-5.4	1.443.0	100.0
3rd qtr-1995	103.7	-18.0	-5.4	1.443.0	100.0	103.7	-18.0	-5.4	1.443.0	100.0	103.7	-18.0	-5.4	1.443.0	100.0
4th qtr-1995	103.7	-18.0	-5.4	1.443.0	100.0	103.7	-18.0	-5.4	1.443.0	100.0	103.7	-18.0	-5.4	1.443.0	100.0
1996	103.7	-18.0	-5.4	1.443.0	100.0	103.7	-18.0	-5.4	1.443.0	100.0	103.7	-18.0	-5.4	1.443.0	100.0
1st qtr-1996	103.7	-18.0	-5.4	1.443.0	100.0	103.7	-18.0	-5.4	1.443.0	100.0	103.7	-18.0	-5.4	1.443.0	100.0
2nd qtr-1996	103.7	-18.0	-5.4	1.443.0	100.0	103.7	-18.0	-5.4	1.443.0	100.0	103.7	-18.0	-5.4	1.443.0	100.0
3rd qtr-1996	103.7	-18.0	-5.4	1.443.0	100.0	103.7	-18.0	-5.4	1.443.0	100.0	103.7	-18.0	-5.4	1.443.0	100.0
4th qtr-1996	103.7	-18.0	-5.4	1.443.0	100.0	103.7	-18.0	-5.4	1.443.0	100.0	103.7	-18.0	-5.4	1.443.0	100.0
1997	103.7	-18.0	-5.4	1.443.0	100.0	103.7	-18.0	-5.4	1.443.0	100.0	103.7	-18.0	-5.4	1.443.0	100.0
1st qtr-1997	103.7	-18.0	-5.4	1.443.0	100.0	103.7	-18.0	-5.4	1.443.0	100.0	103.7	-18.0	-5.4	1.443.0	100.0
2nd qtr-1997	103.7	-18.0	-5.4	1.443.0	100.0	103.7	-18.0	-5.4	1.443.0	100.0	103.7	-18.0	-5.4	1.443.0	100.0
3rd qtr-1997	103.7	-18.0	-5.4	1.443.0	100.0	103.7	-18.0	-5.4	1.443.0	100.0	103.7	-18.0	-5.4	1.443.0	100.0
4th qtr-1997	103.7	-18.0	-5.4	1.443.0	100.0	103.7	-18.0	-5.4	1.443.0	100.0	103.7	-18.0	-5.4	1.443.0	100.0
1998	103.7	-18.0	-5.4	1.443.0	100.0	103.7	-18.0	-5.4	1.443.0	100.0	103.7	-18.0	-5.4	1.443.0	100.0
1st qtr-1998	103.7	-18.0	-5.4	1.443.0	100.0	103.7	-18.0	-5.4	1.443.0	100.0	103.7	-18.0	-5.4	1.443.0	100.0
2nd qtr-1998	103.7	-18.0	-5.4	1.443.0	100.0	103.7	-18.0	-5.4	1.443.0	100.0	103.7	-18.0	-5.4	1.443.0	100.0
3rd qtr-1998	103.7	-18.0	-5.4	1.443.0	100.0	103.7	-18.0	-5.4	1.443.0	100.0	103.7	-18.0	-5.4	1.443.0	100.0
4th qtr-1998	103.7	-18.0	-5.4	1.443.0	100.0	103.7	-18.0	-5.4	1.443.0	100.0	103.7	-18.0	-5.4	1.443.0	100.0
1999	103.7	-18.0	-5.4	1.443.0	100.0	103.7	-18.0	-5.4	1.443.0	100.0	103.7	-18.0	-5.4	1.443.0	100.0
1st qtr-1999	103.7	-18.0	-5.4	1.443.0	100.0	103.7	-18.0	-5.4	1.443.0	100.0	103.7	-18.0	-5.4	1.443.0	100.0
2nd qtr-1999	103.7	-18.0	-5.4	1.443.0	100.0	103.7	-18.0	-5.4	1.443.0	100.0	103.7	-18.0	-5.4	1.443.0	100.0
3rd qtr-1999	103.7	-18.0	-5.4	1.443.0	100.0	103.7	-18.0	-5.4	1.443.0	100.0	103.7	-18.0	-5.4	1.443.0	100.0
4th qtr-1999	103.7	-18.0	-5.4	1.443.0	100.0	103.7	-18.0	-5.4	1.443.0	100.0	103.7	-18.0	-5.4	1.443.0	100.0
2000	103.7	-18.0	-5.4	1.443.0	100.0	103.7	-18.0	-5.4	1.443.0	100.0	103.7	-18.0	-5.4	1.443.0	100.0
1st qtr-2000	103.7	-18.0	-5.4	1.443.0	100.0	103.7	-18.0	-5.4	1.443.0	100.0	103.7	-18.0	-5.4	1.443.0	100.0
2nd qtr-2000	103.7	-18.0	-5.4	1.443.0	100.0	103.7	-18.0	-5.4	1.443.0	100.0	103.7	-18.0	-5.4	1.443.0	100.0
3rd qtr-2000	103.7	-18.0	-5.4	1.443.0	100.0	103.7	-18.0	-5.4	1.443.0	100.0	103.7	-18.0	-5.4	1.443.0	100.0
4th qtr-2000	103.7	-18.0	-5.4	1.443.0	100.0	103.7	-18.0	-5.4	1.443.0	100.0	103.7	-18.0	-5.4		



# Campaign fails to dent disillusionment



Mr Clinton speaking yesterday at Andrews Air Force Base

By Nancy Dunne  
in Washington

Ten days of hard election campaigning since the US congressional recess began has failed to reverse the disillusioned and anti-incumbent mood among US voters, according to an Associated Press poll.

The poll, released yesterday, found only 35 per cent of the electorate in favour of re-electing their own congressional representatives. However, only 26 per cent thought much would change if the Republicans took control of the Congress.

There was good and bad news for both parties engaged in a campaign so far permeated by rancour and sleaze. Republicans were slightly more likely to vote for newcomers than

Democrats, who risk losing control of the Senate and, conceivably, the House as well in the November 8 poll.

However, Democrats had a slight edge with 38 per cent of the voters against 37 per cent in favour of Republicans.

Democratic party strategists fear the apathy and anger in the electorate is more likely to keep Democrats at home and drive Republicans to the polls. President Bill Clinton and the national Democratic party recognise the threat and have sought to turn the anger towards the "obstructionist" Republicans in Congress.

Recent missteps by Congressman Newt Gingrich, the Republican leader in the House, have given the Democrats the opportunity to campaign with a national theme. His "Contract With America",

unveiled last month and signed by 300 Republican incumbents and challengers, promises a balanced budget, tax cuts and strengthening of defence - a prescription Mr Clinton is deriding as warmed-over Reaganism.

Mr Gingrich has also warned that Democrats will be portrayed as "the enemies of ordinary Americans".

This has given ammunition to Mr Clinton, whose approval rating on foreign policy has been rising in the wake of US action in Haiti and towards Iraq. However, he remains deeply unpopular in large sections of the country.

"They are going to give us the trickle-down economics of the 1980s. They are going to give us their 'politics of the enemies list' of the 1970s," Mr Clinton said at the weekend,

referring to the late President Richard Nixon's obsession with his opponents.

Key to the Democrats' chances of stemming a Republican tide will be delivering the message of Mr Clinton's accomplishments to voters, still anxious about job security and profoundly ignorant of the nation's business.

Mr Richard Morin, polling director for the Washington Post, noted at the weekend that few Americans knew the names of congressional leaders and four out of 10 think Republicans control Congress.

Most could not name a single piece of legislation passed by Congress, and half could not think of a single Clinton accomplishment. Those that could named healthcare reform, which was never passed.

## West provinces key to one-Canada campaign

Growing economic clout gives them voice in Quebec separatist debate, writes Bernard Simon

An unusual event in Canadian politics took place last month when Mr Ralph Klein, Alberta's unilingual premier, appeared as the guest speaker at a chamber of commerce function in Sherbrooke, Quebec.

Thousands of miles and a huge cultural divide separate the French-speaking province from the prairies and mountains of Alberta and the rest of western Canada. Many westerners resent French signs at federal government offices in Vancouver, Calgary and Winnipeg. For their part, few Québécois have been "out west".

Mr Klein's trip to Quebec, however, was a sign of the critical role which the four western provinces are set to play in the intensifying debate over the francophone province's future place in Canada, leading up to the independence referendum which the newly elected separatist government in Quebec plans to hold next year. The run-up to the referendum could also make or break the reputations of several of the west's most prominent politicians.

The western provinces - British Columbia, Alberta, Saskatchewan and Manitoba -

have for years resented the influence wielded in national affairs by Ontario and Quebec, which are by far the most economically powerful provinces. Right or wrong, westerners are convinced that they usually get the short end of whatever stick is being proffered by the federal government in far away Ottawa.

Mr David Elton, president of the Canada West Foundation, a Calgary policy research group, observes that whenever a westerner hears about a new federal initiative, "you may not know what it is, but you know you want to be sitting down when you hear it".

However, the west's clout has grown appreciably in recent years. Bank of Nova Scotia forecasts that British Columbia's economy, bolstered by a flood of immigrants and climbing pulp, paper and metal prices, will expand by 4.8 per cent this year, the strongest growth rate among Canada's ten 10 provinces. Alberta, which depends heavily on oil, natural gas and wheat, is expected to come in second with a 4.5 per cent growth rate.

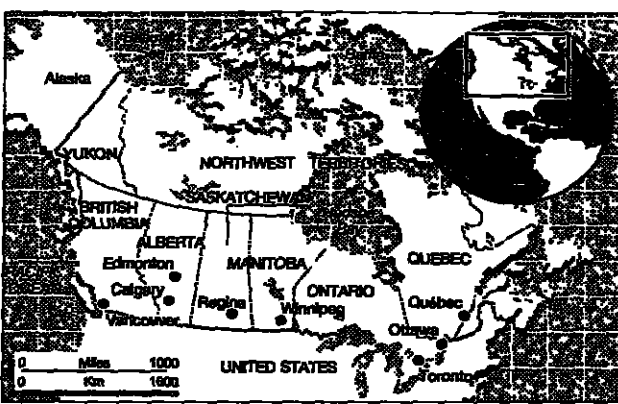
Alberta and Saskatchewan have made more progress than most other provinces in bring-

ing down yawning budget deficits, to the point where Alberta is on track to balance its budget in 1996.

On the political front, Conservative westerners gained a new voice in last year's general election when the Reform party, which is based in Calgary, won 52 seats in the House of Commons, all but one of them west of Ontario.

Reform reaffirmed its opposition to official bilingualism at a convention last weekend. It is also opposed to any special concessions for Quebec. "People want to hear tough talk from their politicians on the Quebec issue," says Prof David Bercuson, a political scientist at the University of Calgary.

Many westerners take a more conciliatory line. Mr Elton estimates that only about 25 per cent to 30 per cent take the view that if Québécois choose to leave Canada in the forthcoming referendum, nothing should be done to stop them. The west's distance from Ottawa and its increasingly close links with east Asia and with neighbouring US states belie a strong attachment to Canada. Periodic initiatives to bring western US states and Canadian provinces together in



a "Rocky Mountain Corridor" have so far been confined to commercial links.

Mr Klein, who is by far the west's most popular politician at present, has given notice that he will be a voice of moderation in the national unity debate. "Canada may not have succeeded in everyone's eyes," he told his audience in Sherbrooke, "but we have not failed. Our federal system of government has allowed both Alberta and Quebec to manage our own economies, and to protect our diverse culture, language, heritage and history." Mr Klein's closest ally in

national politics is Mr Jean Charest, the 36-year-old Québécois who took over the Progressive Conservative party after its near-annihilation in last year's election. The Conservatives, who governed Canada from 1984 to 1993, lost all but two of their seats in parliament.

Mr Klein believes that only Mr Charest, who is expected to emerge in coming months as one of most effective federalist voices within Quebec, can revive Conservative fortunes. The two men have recently indicated - without putting flesh on their ideas - that they

favour a middle ground between Quebec breaking away and the status quo. Mr Elton agrees that "a creative, third option will emerge".

But the risk remains quite high that the west could hasten rather than hinder a break-up. Mr Mike Harcourt, British Columbia's premier, was widely seen as playing into the separatists' hands earlier this year with remarks that while Québécois and westerners were the best of friends, they would become the worst of enemies if Quebec decided to go its own way.

The new government in Quebec has an interest in provoking further such outbursts. After only a month in office, it has already raised hackles by turning a number of relatively minor irritants into evidence of the inability of French- and English-speaking Canada to live together.

It would take a handful of western politicians to rise to the PQ's bait or the Reform Party to regain its stride for Mr Klein's optimistic scenario to start unravelling. On the other hand, if the separatist threat is defused, Mr Klein and Mr Charest could emerge as the saviours of Canada.

### AMERICAN NEWS DIGEST

## Cuba arrests raiding party

Cuba said yesterday its security forces had captured a raiding party of seven armed Cubans from Miami who landed by launch on a causeway near Calbarén on the island's northern coast early on Saturday. The Interior Ministry said the seven, who wore camouflage uniforms, shot dead a local fisherman. Three of the raiders were wounded in a shootout with the security forces.

The ministry described the seven as mercenaries, and the incident in Villa Clara province as a "strange attempt of armed infiltration coming from the US". It occurred a week before Cuban and US delegations were due to meet in Havana to review a bilateral immigration accord signed on September 9. In January 1992 Cuba said it executed by firing squad one of three Miami Cuban exiles captured landing with arms and explosives on the north coast. The two other members of that raiding party had their death sentences commuted to 30-year jail terms. At least one other attempted landing by armed exiles has been reported in the last few years. *Pascal Fletcher, Havana*

### Cardoso confirmed as winner

Mr Fernando Henrique Cardoso, Brazil's former finance minister, was yesterday confirmed as the country's future president following elections two weeks ago. With the final votes counted yesterday, Mr Cardoso polled 34.4m votes or 54.3 per cent of the valid votes cast. His nearest rival, left-winger Mr Luiz Inácio Lula da Silva, polled 27 per cent. The right-winger, Mr Eneias Carneiro, seen as a protest candidate, came third with 7.4 per cent, beating established politicians Mr Orestes Quercia and Mr Leonel Brizola, who polled 4.4 per cent and 3.2 per cent respectively. Most votes had been counted by early last week, but delays and fraud allegations in Rio de Janeiro slowed the final announcement of the results. Mr Cardoso, who is on holiday in Russia with his wife, is due to take office on January 1. *Angus Foster, São Paulo*

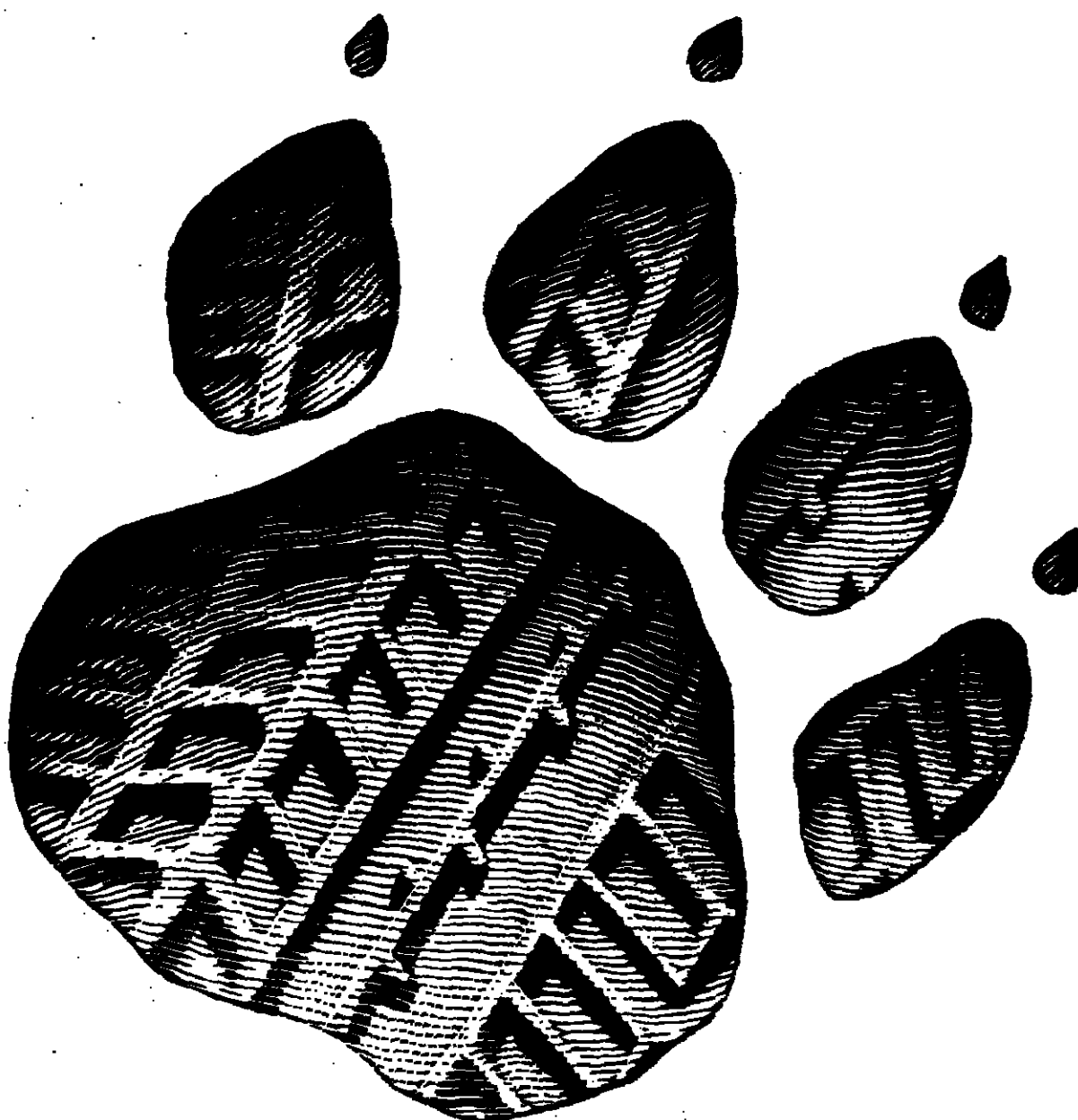
### Outright win seen for Menem

Argentines will re-elect President Carlos Menem next May without the need for a damaging second-round run-off, leaving the opposition vote divided among rival factions, according to an opinion poll published yesterday. The poll adds weight to an important victory earlier this month for the president's Peronist party in Buenos Aires province. Governor Eduardo Duhalde, the second force in Mr Menem's party, overwhelmingly won a plebiscite allowing him to seek re-election, strengthening the Peronists' claim that their policies still carry majority support. Yesterday's poll, published in the government-leaning *La Nación*, showed the Peronists capturing 43.5 per cent of the vote, with the two main opposition forces, the centre-left Frente Grande and the Radical party, mustering only 20.7 and 18.9 per cent respectively. *David Pilling, Buenos Aires*

### US inventories surge

US business inventories rose 1 per cent in August, the fifth straight increase and the biggest advance since May, in what analysts said is fresh evidence of continuing economic expansion. The Commerce Department also reported yesterday that the rise was easily outpaced by business sales, which surged 3 per cent in August, the biggest jump in over seven years. The Commerce Department said inventories totalled a seasonally adjusted \$303.6bn, up from \$294.7bn in July, more than twice the rise expected by analysts. *AP, Washington*

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## NEWS: UK

Price of London-Paris rail return unexpectedly high, says airline

## Eurostar announces £95 fare

By Charles Batchelor  
and Michael Skapinker

The railways of Britain, France and Belgium yesterday announced the start of their high-speed Eurostar service through the Channel tunnel with prices for a return ticket from London to Paris or Brussels starting at £95 (\$150).

European Passenger Services, the British partner in the three-country project, said the prices did not seek to undercut airline fares because Eurostar aims to sell tickets on the basis of more convenient travel. Mr Richard Edgley, managing director, said: "We will run a city centre to city centre service with less hassle. We will also offer better and more interesting meals."

He said Eurostar would gain "a major share" of the market

for journeys between the three capitals and a significant, though probably smaller, share of longer journeys between Manchester and Paris.

Fares for what Eurostar calls its Discovery service start at £95 return between London and Paris or Brussels if the traveller books 14 days in advance. They rise to £156 for a standard ticket without pre-booking, and £195 for first-class travel which includes a hot three-course meal. The service starts on November 14 with tickets on sale from October 24.

British Airways said the Eurostar fares were higher than expected, making its own cheap flights look competitive. BA said air travellers could buy return flights from London to Paris for £83 provided they travelled in mid week and stayed in the French capital

over a Saturday night. In August the fare for this flight had fallen to £59.

However, Mr Cris Rees, commercial manager at Thomas Cook, the travel agents, said Eurostar could probably afford to charge a small premium because it offered a convenient route from the centre of London to the centres of Paris and Brussels, cutting out travel to and from airports. Mr Rees said travelling by rail for the weekend would also appeal to families.

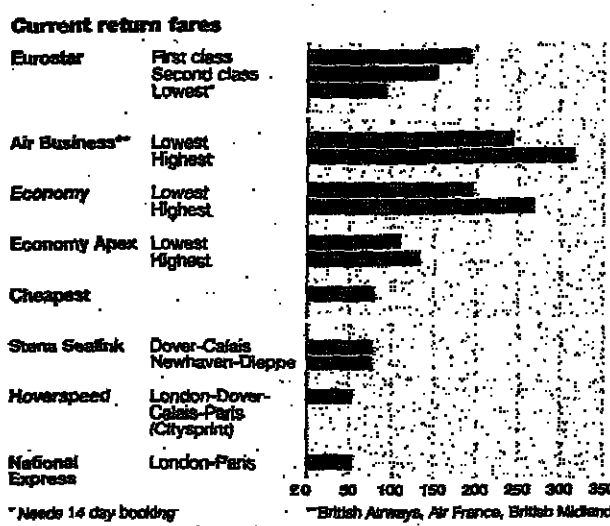
American Express, the financial services and travel group, said it welcomed the added competition for London-Paris travel, the world's busiest air route. The company said it expected Eurostar to win over travellers who found it easier to travel to Waterloo station than to Heathrow airport.

American Express said: "Commuters to Waterloo will just have to change platforms to travel to Paris." They would also be able to work more comfortably on the trains than on an aircraft, the company said.

In the first few months of Eurostar travel, departures will be limited to two a day each way to each of the other two centres, with a third train serving Lille at the junction of the three spurs in northern France. As more trains and carriages are delivered over the next few months Eurostar services will increase in frequency.

Because of continued work on the tunnel by Eurotunnel, operator of the cross-Channel link, there will be no Eurostar services on Saturdays and Sunday mornings. But the Friday afternoon and Sunday after-

## London-Paris: how much does it cost?



noon services will allow travellers to spend weekends away. Tickets will go on sale through Eurostar's teleshops office, at main railway stations and through travel agents.

The journey time between London and Paris is three

hours and between London and Brussels 3½ hours, but these times will fall when the Belgian and British high-speed links are complete.

Lex, Page 18  
Light at the end? Page 19

## BRITAIN IN BRIEF

## Do-it-yourself stores group to shed 900 jobs

Texas Homecare, the UK's second-biggest chain of do-it-yourself stores, is to shed 900 jobs in its 240 stores as part of a management restructuring. The redundancies provide further evidence of the depressed state of the DIY market - one of the fastest-growing sectors of retailing in the 1980s - which Ladbroke said yesterday remained "highly competitive".

Sales growth is slow, with little sign of stimulus from a recovery in the housing market. With more than 1,000 DIY superstores in operation, many analysts believe there is too much capacity in the market. About half the job losses at Texas, owned by the Ladbroke group, will come from reducing the average number of managers and assistant managers in stores from seven to five, with some administrative functions being taken over by computer systems. Remaining assistant managers are being retrained and will spend more of their time on the shop floor to improve service.

Restructuring costs of about £2m will be charged to this year's profit and loss account, but Ladbroke said resulting cost savings would be "considerable". Ladbroke, which has no other retail interests, says it has no plans to sell Texas, but analysts believe it might be prepared to if its performance could be improved sufficiently to attract buyers. Neil Buckley, London.

## Lottery war ahead on television

Commercial television companies are considering broadcasting an "unofficial" programme about the National Lottery to counter the official live draw of winners which will be shown on the publicly owned BBC 1 channel every Saturday evening from late next month. ITV, the national commercial network, is saying nothing about its plans other than to insist that its viewers will be kept fully informed about the lottery that will start creating millionaires from November 18.

The signs that ITV intends to be competitive on what could be one of the top-rated programmes on British television came yesterday as Camelot, the National Lottery operator and the BBC confirmed that they had signed a three-year contract. Lottery tickets will cost £1, and if Camelot's forecasts are met, the world's largest individual lottery should have revenues of £32bn over seven years. Raymond Snoddy, London.

## Army role in Ireland to change

The British government yesterday gave fresh impetus to the peace process in Northern Ireland by indicating that the armed forces were preparing to adopt a lower profile in the province.

Amid clear indications that Downing Street will announce within the next week that it is ready to hold exploratory talks with Irish nationalists, Mr Malcolm Rifkind, defence secretary, told MPs he was planning new measures to reduce the impact of the armed forces' operations.

Mr Rifkind said it would be irresponsible to cut force levels in Northern Ireland prematurely. But he told the House of Commons that the government aimed to "make the posture of the military patrols appear less aggressive to the public. It can never be normal for soldiers to be deployed on the streets of the United Kingdom." *Tor Owen and James Elitz, Westminster.*

## Leader's grip on party grows

Mr Tom Sawyer, a leading trade union ally of Labour party leader Mr Tony Blair, was yesterday appointed general secretary of the party by its ruling national executive committee. His appointment ensures the loyalty of the party machinery, and helps prepare the ground for Mr Blair's plan to dump its traditional commitment to nationalisation later this year.

Mr Blair's grip on the party machine is expected to be further strengthened tomorrow by the election of additional supporters to the shadow cabinet. *Kevin Brown, Westminster.*

## Policy on detention of asylum-seekers is attacked

By Edward Mortimer

The UK Home Office practice of detaining asylum seekers for long periods without giving reasons is severely criticised in two reports from humanitarian organisations published today.

In one report, based on a study tracking the fortunes of 50 detained asylum seekers over 14 months, Amnesty International's British section says current procedures violate

international human rights laws and standards. The other report, from the Medical Foundation for the Care of Victims of Torture (a UK-based charity), finds that people who seek asylum after surviving torture in their own countries are being detained in Britain for periods ranging from two to 17 months.

Some 600 asylum seekers in the UK, out of 50,000 under consideration, are currently

detained pending a decision on their claims. Amnesty believes that "in most cases detention is neither necessary nor for reasons recognised as legitimate under international standards".

On average, Amnesty says, the asylum seekers in its study, none of whom were charged with any criminal offence, were detained almost three times as long as remand prisoners charged with serious

offences. Twenty-two of the 50 were eventually released, either on bail or on "temporary admission", while their cases were still unresolved - five of them after being held for over six months. None of these later absconded or failed to comply with the conditions of their release.

"These findings seriously undermine the government's claim that detention is used only where necessary and 'only

as a last resort' when 'the applicant cannot be relied upon to comply voluntarily...'" the report says.

It also condemns the lack of any requirement that detentions should be justified to a court or similar review body. It contrasts this with the criminal justice system.

The Medical Foundation report is based on 47 cases of detained asylum-seekers visited by doctors

from the foundation since January 1993. In 45 of these, the foundation was able to document evidence of torture, but detention continued none the less.

The report stresses that detention, besides adding significantly to the distress of torture survivors, "makes it more difficult to make decisions about a person's credibility", because of the anxiety and trauma it produces.

## Police crackdown averts \$10bn fraud on China bank

By Robert Peston

A \$10bn bank fraud was prevented by an international police operation led by the UK's metropolitan fraud squad.

Details of one of the biggest-ever attempted bank frauds emerged yesterday on the eve of the UK's first National Fraud Forum, which brings together police, City of London regulators and private-sector investigators to discuss how to improve the UK's record on fraud prevention and prosecution.

The victim of the fraud

attempt was the Agricultural Bank of China, one of China's big four banks.

It involved the issue by the bank of \$10bn in letters of credit, or bank certificates guaranteeing trade payments between two companies. Letters of credit can be traded or used as collateral when raising bank loans.

On April 1 last year, the Hengshui Central branch of the Agricultural Bank issued 200 of these certificates, in the name of United Asia (Group) Corporation, a shell company based in North America, with

payment due to Sherwood Investments of Bahamas.

According to an official with a close knowledge of the case, the certificates were genuine in that they were signed by two employees of the bank. However, they may have been obtained by deception and their export out of China was also probably illegal.

The official said that the perpetrators of the scheme were too greedy. "If there had been less money at stake, they might have got away with it", he said. Most of the certificates were taken on a circuitous

route through a series of off-shore centres to the City of London, where eventually they were presented to Barclays, the UK clearing bank.

Investigators believe that the aim of presenting them to Barclays was to obtain a receipt stating that the certificates had been lodged with the bank. This receipt would then have been used to obtain substantial loans from other banks.

However, Barclays had suspicions about the provenance of the certificates and therefore contacted Agricultural Bank's

head office and the Bank of England.

Meanwhile, the Chinese authorities had by July of last year become aware of the export of the letters of credit. Messages were sent to all international banks via the SWIFT electronic funds transfer network, telling these banks that the certificates should not be treated as legal tender.

The police in London and New York were alerted. In the following six months, they succeeded in recovering 193 of the certificates in London. Six more were found in the US and

West Indies. The location of one was traced to a bank vault in Switzerland.

Mr Lei Ping Wu of the agricultural bank's London office said that, thanks to the actions of the police, his bank had suffered no losses.

The individual who presented the certificate to Barclays has disappeared. In China, several people have been imprisoned in connection with the case, including two bank employees. No charges have been laid against anyone outside China.

Fraud Survey, Page 27



"Take me to the Hilton."

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"Take me to the Hilton."

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Industry minister says Conservatives were right to opt out of EU social chapter

## Samsung project biggest since Nissan

By John Burton in Seoul

Samsung's decision to establish its main European production base at Weymouth in north-east England comes after fierce competition among EU members to attract the biggest investment project yet by a Korean company in the region.

The world's fifth-biggest electronics group has been scouting sites in the EU for the past year as part of its strategy to establish regional manufacturing centres around the globe. It has already selected Tijuana, Mexico, as its main production complex for North America.

EU candidates included Portugal, Germany and France. The final choice came down to Spain, where Samsung has TV and VCR manufacturing operations in Barcelona, and the UK. It now produces colour TVs at Billingham, Cleveland.

According to UK investment officials, Samsung conducted negotiations on the final choice in the past two months. Much was at stake. Samsung plans to

spend \$700m on the project, almost seven times the annual investment by Korean companies in the EU.

The proposed complex will have an annual production of 1m computer monitors, 1.5m microwave ovens, 250,000 facsimile machines, 250,000 personal computers, and 3m monitor tubes as well as facilities to manufacture 8-inch semiconductor wafers and colour televisions. The facilities will generate \$2bn in annual turnover.

British officials describe Samsung's project as the single biggest foreign manufacturing investment in the UK since Nissan's initial \$450m investment at Sunderland in 1988.

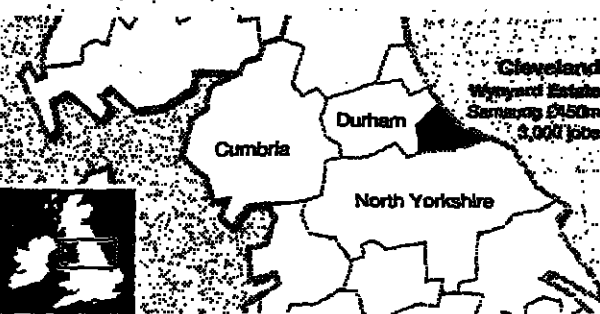
It is a significant escalation of the trend towards overseas expansion by South Korean companies, which lag their Japanese competitors in establishing plants abroad. The aim is both to get round protectionist trade barriers and to be close to the markets they serve. Samsung recently also announced plans to build a \$500m plant outside Shanghai.

Mr Michael Heseltine, UK trade and industry secretary, believes the UK was selected over Spain for several reasons including labour productivity and infrastructure, the Koreans' familiarity with the English language, and the previous success of Korean operations in the UK.

Mr Heseltine, who is on a visit to Seoul, cited the Samsung decision as supportive of the UK's decision to opt out of the EU social chapter so that it can offer "competitive wage rates." But he added that Samsung found the UK an attractive place to invest because of its membership in the EU.

However, the government's offer of financial benefits also swayed Samsung. Direct and indirect assistance accounts for 20 per cent of the investment cost, the company said. British officials believe the incentive package is worth the price because the Samsung complex will provide 3,000 jobs in a "regional unemployment blackspot" in north-east England.

### Investments from the Far East



Date	Name	Where	Project cost	Jobs
1989	Toyota Motor	East Midlands	£700m	3,000
1988	Fujitsu (Semiconductors)	North-east	£4,000m	1,500
1982	Nissan Motor	South-west	£300m	1,300
1989	Mitsubishi Manufacturing	South-west	£480m	953
1988	ASAT	Wales	£42m	1,000
1988	Yamaha Industrial	West Midlands	£25m	1,000
1987	Nissan Motor	North-east	£150m	1,800

Source: IRI

## Incentives in cash attract companies

By Chris Tighe

Samsung's new Electronics Complex underlines yet again the fierce competition between rival areas of Europe for new investments, and the substantial incentives offered to help tip the balance.

In the summer, the rift between UK government ministries about the aid available from the Department of Trade and Industry for inward investment was exposed. It was revealed in a leaked letter in which Mr Michael Portillo, then a junior minister at the Treasury, wrote critically about the use of investment grants to deal with regional imbalances in employment.

Samsung's choice of north-east England will have been influenced by its happy experience in the region, where it has a successful recently expanded £20m investment at Billingham, Cleveland, producing television sets and employing 300 people.

But nobody in the economic development field doubts the importance of large cash incentives; at Weymouth, a Development Area, Samsung has been offered £58m (\$91.6m) in Regional Selective Assistance on the basis of a £450m project. If, as hoped locally, the investment goes up to £600m, applications for further RSA could be made.

In addition, government-backed developer England Partnerships is contributing £9m and Cleveland County Council and Teesside Training and Enterprise Council are offering £5m each. Other council aid and European funds have produced an additional £1.85m.

As late as last Friday the Northern Development Company did not know if it had secured the project; chief executive Mr John Bridge believes the Samsung study team made its final decision only on Friday.

## Branson rival hopes to take cola war to US

By Diane Summers, Marketing Correspondent

Richard Branson, the Virgin company chairman who appears to delight in challenging the supremacy of established organisations such as British Airways and Coca-Cola, is himself coming under attack from a minnow competitor.

Mr Ric Huning, a businessman who has been operating a small group of companies called the Elixir Group from Wales, says he, and not Mr Branson, originated the idea of a Virgin Cola drink. He says he intends to launch the product in the USA and is also pressing ahead in Australia and South Africa.

Meanwhile Mr Branson's Virgin drink will initially be distributed in the UK mainly through Tesco supermarkets and his lawyers said they would act against Mr Huning if he launched a product called Virgin cola anywhere.

Mr Huning says he first presented the Cola concept to Virgin in 1992 but that in January last year the organisation rejected the idea. Virgin has confirmed that one of its executives wrote to Mr Huning in January last year saying: "Your idea for 'Virgin Cola' looks very interesting and I am sure it would be a great success."

"However, we are currently concentrating investment on ideas which fit in with our existing businesses," he continued. "Unfortunately your idea

is a little too far removed from those businesses to be of interest to us. I wish you luck with your endeavours and thank you for considering Virgin."

Mr Huning says that after receiving the letter he started discussions about manufacturing and marketing Virgin Cola himself. But then, he continues: "Somebody in the [Virgin] organisation must have decided somewhere through 1993 that it was a damn good idea and they should really do it."

In July this year Virgin gained an interim injunction in the UK preventing Mr Huning from using the Virgin Cola name in the UK. Harbottle & Lewis, Virgin's lawyers in London, said that the letter from Mr Dizon was "written by mistake in the middle of an extremely aggressive set of correspondence" between the firm and Mr Huning.

This correspondence made clear to Mr Huning that "if he tried to go ahead and use this [the Virgin Cola name] we'd come after him," said Harbottle & Lewis.

Virgin said Mr Branson had said some years ago that he was thinking of going into the soft drinks business. Mr Huning had been told a long time ago that cola was about a formula rather than an idea. "We needed someone to bring us the formula."

Mr Huning, who has subsequently seen the collapse of his main trading company, remains undeterred.

## Industrial revolution in north-east

By Chris Tighe

The Samsung project is a tremendous economic and psychological boost for a region of Britain undergoing its own industrial revolution.

North-east England prides itself on being the UK's biggest focus of inward investment by Far East manufacturers.

It already numbers among its dozens of big foreign investments two of the UK's biggest - Nissan's £292m European car plant at Sunderland, Tyne and Wear, and Fujitsu's only European semiconductor manufacturing operation, at Newton Aycliffe, County Durham.

Fujitsu announced yesterday that production of 16 megabit, DRAM microchips at Newton Aycliffe will start next April.

## Electronics giants queue to invest

By Alan Carne

Samsung's decision to spend some £450m (\$711m) to extend its Cleveland factories represents a further vote of confidence in the quality of British manufacturing from South Korea's largest industrial group, which is also the world's 18th-largest company.

Its activities range from semiconductors, electronic watches and computers to shipbuilding, heavy engineering, petrochemicals and medical equipment.

In the past month NEC, the Japanese electronics giant, Sharp, the Japanese consumer electronics company and Philips of Holland have all announced further investment in their UK manufacturing operations, chiefly in the areas of semiconductors, television picture tubes and white goods.

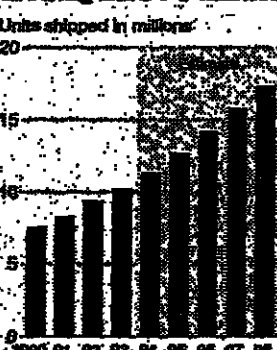
In addition, Mr Philip Semper, president of the computer division of Sun Microsystems, the US workstation man-

ufacturer, said the quality of portable computers produced by Sun's Scottish plant was on a par with any other manufacturing region.

Samsung is following this investment pattern. It already manufactures 700,000 colour television sets a year in north-east England for export to the rest of Europe.

More than half the personal computers sold throughout Europe are now manufactured in the UK. Some 10.3m machines worth about \$20bn were shipped to continental Europe in 1993; the number grew another 10 per cent in 1994. The market is buoyant. A recent Economist study suggested demand is set to grow in double digits for the foreseeable future. "Business in the 1990s cannot compete without the efficiency and technology provided by computers... the massive price reductions of the past two years have played a vital part in promoting continued growth

### Growing Home PC market



in the sale of PCs," it argues. Mr Chan Bea, managing director of Samsung Electronics in the UK, pointed out the proximity of Cleveland to Scotland's Silicon Valley where there are a host of computer companies which could become customers for Samsung's products.

The picture for microwave ovens is less clear cut. According to the UK Association of Manufacturers of Domestic Appliances some 1.5m ovens were shipped last year, roughly the same as the number of washing machines. While the number of first-time buyers is continually replenished, it is becoming a replacement market.

The UK is reckoned to be ahead of the rest of Europe, however. Total European production of microwave ovens in 1992 was 3.9m. Whereas almost 90 per cent of European households have a washing machine, however, only about 83 per cent have microwave ovens. Mr Bea said manufacturing within Europe would prevent regulatory problems with the European Commission.

Samsung's new investment corresponds with its stated corporate strategy which is to concentrate investment in promising sectors of international industry rather than weakening its thrust by over-diversification.

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# Cause for quiet celebration

As it approaches its first birthday, the UK's Financial Law Panel has good cause for cheer. The panel was set up by the Bank of England amid concern that uncertainties in the law affecting financial markets were undermining London's future as an international financial centre.

Today, the FLP enjoys the active support of some 150 (fee paying) law firms, banks and other financial institutions. And according to the FLP's chairman, Lord Donaldson, former Master of the Rolls: "In its first year, the panel has made far greater progress with its allotted task than could reasonably have been expected."

To date, nine projects have been completed. In addition to guidance papers on so-called "netting" (offsetting liabilities between two parties), the FLP has produced papers on the legal position of "shadow" directors (people who, while not directors themselves, exercise control over the management of a company); the controversial issue of brokers' liability for premium in non-marine insurance at Lloyd's; and a recommendation on the position banks should adopt on security over cash deposits.

Lord Alexander QC, chairman of National Westminster Bank and the Bank of England's legal risks review committee, which recommended setting up the FLP, said "I feel the prototype is flying." When, two years ago, the committee recommended the FLP the idea seemed a good one, he said. But there were several concerns. Would there be enough subscribers? Would there be enough for the panel to do in the long term? Would enough people want to solve problems outside court to make the panel worthwhile?

Those concerns have proved

One year after its launch, Robert Rice examines the progress of the UK's Financial Law Panel

largely unfounded. "Overall, I'm rather encouraged," said Lord Alexander.

According to Lord Alexander, NatWest is satisfied it is getting value for money. He points to the reassurance the panel has provided for the markets in general, particularly in areas such as netting and shadow directorships, where although bankers and lawyers felt they were on solid legal ground there was still some uncertainty.

The panel has also been able to prevent disputes going to court by examining issues such as the Lloyd's brokers' liability. The panel sought to determine whether an industry practice existed by which brokers could be held liable for premiums. It found no such custom existed and the issue has now been resolved without recourse to the courts. "That seems to me like a very attractive way of dealing with issues," said Lord Alexander.

He believes the panel's greatest strength is that it is seen as impartial - a view echoed by Mr Colin Bamford, the FLP's chief executive. Although Mr Bamford concedes that "sometimes what we do makes people's lives more difficult", his main objective of ensuring the FLP is seen as independent appears to have been achieved.

"There is no point in the panel being the representative voice of City solicitors or another arm of the Bank of England," he said. This question of independence is particularly important when dealing with the government. "My perception is that the government regards us as worth listening to because we are not a representative body



City success: FLP's Colin Bamford and Lord Alexander

of City interests. There is enough special pleading on behalf of interest groups already," he said.

One consequence of this uncompromising stance is that several banks which have turned to the FLP have been frustrated at its dogged impartiality.

The debate on the limits of auditors' liability is an example of an issue in which the FLP has resisted any involvement. "It's an important debate. But there are no legal uncertainties involved. We would just be adding our voice to one side or another and that's not what we're here for," says Mr Bamford.

As it sets out on its second 12 months, the panel's agenda is already full. The two big projects on its hands are legal uncertainties in fund manage-

ment - an issue brought to the FLP by UK commercial banks - and the powers of public bodies, such as local authorities and National Health Service Trusts, to deal in financial markets. The latter is a legacy of the 1990 Hammersmith and Fulham council "interest rate swaps" case in which the Law Lords ruled that swaps contracts between banks and local authorities were invalid because local authorities were not empowered to carry out such transactions.

The issue of public bodies trading in financial markets has been given added importance by two recent developments: a High Court ruling in May in the Allerdale case; and by the government's much-awaited private finance initiative for public sector projects. In the Allerdale case, the

High Court ruled that Credit Suisse, a Swiss bank, could not recover a £5m loan to Allerdale Borough Council, Cumbria, which the local authority had guaranteed. The court said the council did not have the power to issue a guarantee. The judgment heightened concern in the City about lending to local authorities.

Since the Hammersmith and Fulham ruling local authorities have been lobbying the government for a change in the law on the public bodies' powers to engage in City trading. Local authorities have proposed two solutions: either abolish the *ultra vires* rule (which provides that a contract is void and unenforceable if it is beyond the powers of a public body); or introduce "safe harbour" provisions for banks entering into such transactions.

Neither solution is attractive to the government. The FLP was called in and has proposed to the Treasury that a tribunal be set up under the Audit Commission to which public bodies can take pre-clearance for proposed City deals. If the proposed tribunal says a deal is within a public body's powers it will issue a certificate as a safeguard for third parties. It is a novel solution, says Lord Alexander, which only an independent body such as the panel could have proposed.

Over the coming months the panel will also be continuing two long-term projects - seminars for judges on practical developments in the financial markets, and the development of the idea of the panel acting as *amicus curiae* - friend of the court - in litigation involving the operation of the financial markets.

The latter has already been discussed with senior judges and lawyers and is generally well received, said Mr Bamford.



**EUROPEAN COURT**

Tetra Pak, the Swedish packaging group, recently lost its appeal to the Court of First Instance against a record £207m (€258.8m) fine levied by the European Commission for breach of the Rome Treaty competition rules.

The case, which involved a six-year investigation by the Commission followed by a two-year administrative procedure, concerned the commercial policy adopted by Tetra Pak in the European Community since 1976 in respect of its packaging machines and cartons.

The Commission found Tetra Pak had a dominant position in the markets for machines and cartons intended for the aseptic packaging of liquid foods in the EC, and that it had abused that position both in those markets and in the neighbouring markets for non-aseptic machines and cartons.

Non-aseptic food packaging does not require the same degree of sterility as aseptic packaging and so calls for less sophisticated equipment.

Tetra Pak denied it was in a dominant position in the EC and that it had infringed the competition rules. First, it disputed the Commission's definitions of the product market and geographical market. Second, it disputed that it was in a dominant position in the markets for aseptic products. Finally, it disputed whether the relevant EC competition rules applied to Tetra Pak's conduct in the neighbouring markets for non-aseptic products, in which it was not dominant.

In defining the product market, the Court held that it was necessary to take account of all the competitive conditions in the general market for the packaging of liquid food products when determining whether the Commission was correct in finding that there

## Tetra Pak appeal

were distinct markets for aseptic and non-aseptic machines and cartons.

The Commission was right to determine this issue on the basis of whether other products were sufficiently interchangeable with the particular markets, and to apply this test to the packaging systems themselves and not to the finished products (for example, milk cartons).

Given this, the Court found, on the facts the Commission had established to the requisite legal standards, that the markets for aseptic and non-aseptic machines and cartons were distinct from the general market in systems for packaging liquid food products.

With regard to the geographical market, the Court held that this consisted of a territory in which all traders operated under the same conditions of competition as far as the relevant products were concerned.

The Commission's definition of the market as covering the whole EC market was thus correct, as demand was stable throughout the EC, customers could obtain supplies in other member states and the products themselves could be easily transported between member states.

With regard to dominance of the aseptic markets, the Court had little difficulty supporting the Commission's findings, as these showed the applicant had 90 per cent of the market in aseptic machines and cartons throughout the EC.

With regard to the Commission's finding that Tetra Pak had abused its dominant position

in the neighbouring market of non-aseptic products, in which it was not dominant, the Court said a company in a dominant position had a special responsibility not to allow its conduct to impair genuine, undistorted competition on the common market.

The actual scope of this special responsibility depended on the specific circumstances of each case.

In the present case, both aseptic and non-aseptic products were used for packaging the same liquid food products, and a substantial proportion of Tetra Pak's customers operated in both areas.

Given these facts, the Court held that the Commission was entitled to find that the links between the aseptic and non-aseptic markets reinforced the applicant's economic power over those markets, without there being a need to establish the existence of a dominant position on the non-aseptic markets.

Tetra Pak also claimed that its conduct was not abusive. The Court found, among other things, that customer contracts which tied machine users to using Tetra Pak's cartons were not objectively justified and were intended to strengthen the company's dominant position by reinforcing its customers' economic dependence on it.

The Court also found that the company's prices at certain times were below variable costs and that this was evidence of predatory pricing, as no dominant company had any interest in applying such prices except to eliminate competitors.

A number of other procedural pleas raised by Tetra Pak, including submissions on the level of the record fine were dismissed. *Tetra Pak International SA v Commission, CFI 2CH, 6 Oct 1994.*

BRICK COURT CHAMBERS BRUSSELS

## LEGAL BRIEFS



### CEDR settles £3m dispute

The Centre for Dispute Resolution (CEDR), an industry-backed, non-profit-making body set up in 1990 to promote the use of alternative dispute resolution in the UK, has resolved a £3m dispute between Hawker Siddeley Power Engineering and the Ceylon Electricity Board.

The two-year-old dispute, over an electrical engineering contract for Colombo's underground distribution

system, was resolved in five days.

CEDR was approached by the British High Commission after several unsuccessful attempts by the parties to settle the wrangle. Mediation was carried out in Sri Lanka by two mediators from London. The alternative for the parties was lengthy international arbitration, according to CEDR. One of the companies estimated its cost savings at £200,000.

### New IBA president

Professor Ross Harper, former president of the Law Society of Scotland, has been elected president of the International Bar Association from 1994-1996.

### B&M leads field

Baker & McKenzie, the world's largest law firm, has emerged as the leading legal adviser on international infrastructure projects in 1993-94, according to the magazine *Privatisation International*. Firms are

ranked by the number and value of the transactions they were involved in.

### Accountants need to be 'proactive'

Accountants need to be more proactive in the services they provide to lawyers. This is the finding of a survey of law firms by accountants Baker Tilly and The Lawyer magazine.

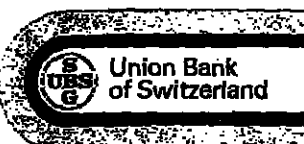
Lawyers do not rate the financial advice they receive from accountants very highly, with only 43 per cent of respondents considering it to be good or excellent. A number of firms said accountancy documents were too technical and should be simpler and more precise.

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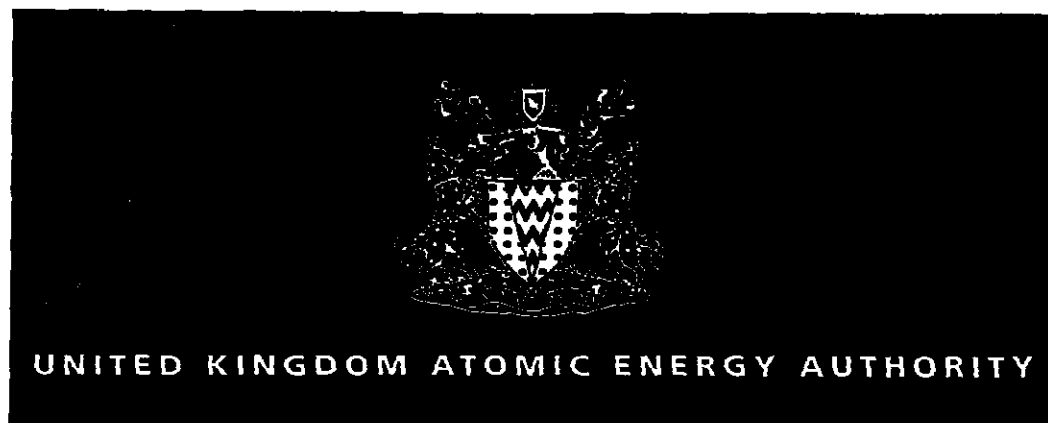
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## TECHNOLOGY

## On time and to order

James Buxton looks at Compaq's upgrade of its Scottish computer plant



Production changes have enabled the Erskine plant to manufacture mother boards and notebook computers

Compaq Computer's plant at Erskine in Scotland is just a few miles from the village of Houston, a coincidence that symbolises its connection with the company's headquarters in Houston, Texas.

Until recently Compaq's Scottish manufacturing operations have largely focused on assembling technology developed in the US. However, Erskine's role is being upgraded as part of the company's worldwide review of manufacturing efficiency, started four months ago in a bid to become the personal computer world market leader by 1996.

Already, Compaq is well on the way to achieving its goal. The company doubled its profits in the first half of this year. It has also continued to cut the prices of its PCs, which have stolen a lead from IBM and Apple Computer in terms of unit sales in the US and Europe for the first half of this year. Third-quarter results are due tomorrow.

George Devlin, managing director at Erskine, has led the project team examining the company's manufacturing and delivery operation, nicknamed "make and move".

However, he acknowledges that shortcomings have recently emerged across the company's plants in producing its Elite line of notebook computers.

"We couldn't get some new products to our customers in the quantities they wanted, at the time they wanted them," he says. "This, he observes, was due to 'design issues' and 'supply issues'."

The rethinking of the company's processes from manufacturing to delivery has now gone through what Devlin calls its diagnosis phase, ending last week with a presentation in Houston to Eckhard Pfeiffer, Compaq's president and chief executive. Compaq plants are now implementing the conclusions of the review.

Compaq has been transformed since Pfeiffer was appointed in late 1991. Between November 1991 and November 1993 Compaq quadrupled its global output volume, producing cheaper PCs, without increasing the manufacturing space of its core factories at Houston, Singapore and Erskine.

This year it has opened plants in Brazil and China.

The 540,000 sq ft Erskine plant outside Glasgow, which supplies 80 per cent of Compaq's European, Middle East and Africa market, had to make changes in manufacturing systems, some of which are now being adopted across the company.

"We used to think of ourselves as a high volume manufacturer," says Devlin. "In reality we've become one only recently." Erskine's output increased two and half times

between 1991 and 1993, while unit production costs fell by 76 per cent.

There has been a further 60 per cent rise in output volume over the past 12 months.

Greg Petch, senior vice-president in Houston for corporate operations, set the Erskine plant the target of cutting costs to the level of the Singapore plant, which has the advantages of more component suppliers located nearby and lower labour costs. If it succeeded it would earn the right, enjoyed by

Singapore, to manufacture its own mother boards - a printed circuit board which includes the microprocessor and other tiny components, and are at the value added end of making PCs - and to produce notebook computers.

First, Erskine's PC assembly area abandoned progressive production lines and moved to a station build system - instead of a moving production line, one person assembles most of the central processing unit at one station. Ken McQuade, manufacturing manager, says this gives workers more satisfaction because they partially finish a product.

Erskine then introduced a cell build system alongside station build and now uses it for 40 per cent of its output. Workers in cells of five operate as a team, carrying out all the jobs of PC assembly to boxed product ready for the customer.

This enables PC testing and software installation to be carried out in one place, cuts out travel round the plant and releases valuable space. There are manpower savings as all members of the cell can be continuously occupied.

Partly because of successful cost-reductions at Erskine, Compaq has installed five new production lines using surface mount technology (SMT) to produce the PC's mother board. The first line began operating in July. A month earlier Erskine began production of its notebook products.

By the end of the year Erskine will have invested \$17m in SMT lines, producing 40 per cent of its boards in-house. It has taken on 250 extra staff, taking total numbers to around 1,100, in addition to which there are up to 500 temporary staff.

To justify the capital cost of the new lines the Erskine plant has begun working 24 hours a day seven days a week. Devlin says the new production processes at the plant "collapse part of the supply chain".

The remaining boards will continue to be imported from Compaq in Singapore with some supplied by PCB assemblers nearby in Scotland. By 1997 Erskine hopes to make all its mother boards in-house.

Devlin admits that the Scottish plant has less control over its supply chain than Houston or Singapore, but says 50-60 per cent of its components are delivered on a daily, just-in-time basis. Most sheet metal products come from Fullarton at Irvine, Ayrshire, and disc drives from Quantum in Ireland as well as Comex at Irvine.

But the flat-panel displays for the company's notebook still have to be imported by sea from Japan, requiring a 24-week ordering lead time. "Scotland should get someone to invest in a \$1bn plant making displays and monitors," he says.

As the plant moves towards PC production to order, a short supply chain is essential and would complement its improved manufacturing efficiency. "We want to move the company from being a 'push' organisation in which we determine what we build and you the customer use it, to becoming a 'pull' organisation in which we build what the customers tell us they want," he says.

Factory cranes get smart

Factory cranes have long been taken for granted by industrial users, but the drive for increased productivity is prompting customers to seek more sophisticated solutions for their handling needs. Enter, the thinking crane.

The trend towards more efficient stock control, smaller warehouses and just-in-time production, calls for faster, more productive and safer cranes, which, in turn, requires sophisticated controls of electric motors.

In March, Cheshire-based Street Crane, one of the market leaders for electric overhead travelling cranes, responded by beginning Hoist 2000, a 2500,000 project to develop the use of programmable logic controllers in hoists.

The aim is to develop programmable speed control for cranes, incorporating changes of speed to accelerate the movement of components around a factory or distribution centre without compromising on safety.

For the first time, Street has won support for its technology development from the Department of Trade and Industry, which is funding the most innovative parts of the project with £300,000.

In its most developed form, the Hoist 2000 will incorporate in-built condition monitoring to record cycles of operation and events such as overloading. This will allow users to undertake planned maintenance, detect abuse of the crane and monitor safety of operation.

The project is still under development, but Street is already selling cranes incorporating another PLC-based initiative called Smart Options. This embraces two developments, SC.Smartlift and SC.Smartdrive, which enable the crane's horizontal and vertical motions to be pre-programmed. SC.Smartlift monitors the speed 25 times per second.

For those who want to read pre-recorded software and multimedia data CDs in a drive that can both read and write the same amount of data at the same speed. The only alternatives available now involve two drives, a conventional CD-ROM combined with a 650+ MB hard disc drive or one of a few very expensive optical recorders currently produced for commercial and industrial applications.

But in a year or two, next generation magneto-optical drives are likely to reach the capacity of a CD. Matsushita hopes that by then its CD-Rom/phase change drive, which uses discs of 120mm diameter, will have carved out its own specialised niche in the market. In addition, CD-Rom drives might be used side-by-side with high-capacity magneto-optical drives.

One thing is certain: the market wants high-capacity, high-speed, rewritable media. One way or another, the market will get it. By November, Matsushita will be shipping samples of their CD-Rom/phase-change drive priced at ¥100,000 (£533) and some time next year, volume shipments will begin.

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Most optical disc drives for personal computer applications use magneto-optical technology. Governed by an international ISO standard, MO drives are now available with capacities of 230 MB per 3.5-inch disc and are expected to surpass 600 MB by 1996. Magneto-optical is also the technique Sony uses in MiniDisc and MD data recorders.

A second optical recording technique, shown by Matsushita at the Japan electronics show, uses the laser beam's heat to change the phase of structure of the recording surface from an amorphous state to crystalline and back again. It is this ability to change structure and reverse that is the basis of the rewritable CD-Rom/optical drive.

It is likely that when CD-Rom/phase-change drives appear in the shops next year, they will be the only game in town for those who want to read pre-recorded software and multimedia data CDs in a drive that can both read and write the same amount of data at the same speed. The only alternatives available now involve two drives, a conventional CD-ROM combined with a 650+ MB hard disc drive or one of a few very expensive optical recorders currently produced for commercial and industrial applications.

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Andrew Baxter

Robert Patton considers a new concept in CD-Rom drives

## Driving at new speeds

developed, recordability was an essential part of the concept. According to Andrew House, a Sony spokesman: "We never thought that write once was a really effective alternative."

The field of audio, video and data recording is strewn with the bones of formats that died because they did not allow consumers to make their own recordings. The compact disc is the only recording medium since the LP record that has achieved broad market success without offering recordability. That shortcoming is the principal reason for the continued market success of the audio cassette.

With recording media for computer applications, the ability to rewrite data is even more vital. This makes the success of CD-Rom as a medium of distribution and storage for computer data remarkable. But

CD-Rom arrived at a time when there were no better alternatives. The market needed a means of distributing large quantities of graphical data to users. Hard disc drives of comparable size were expensive. Some drives could handle removable media, but the capacity of a CD-Rom disc was 5-10 times that of a removable hard disc.

A rewritable CD-Rom drive is technically impossible at the moment. The process of recording data on a CD involves burning microscopic pits into the surface and the process is not reversible.

But there are other optical disc recording methods which combine the capacity of the CD with the advantage of recordability.

Magneto-optical (MO) recording uses a laser beam to change the magnetic state of the recording surface using a technique called Kerr-rotation. The changes are

read magnetically during playback.

Most optical disc drives for personal computer applications use magneto-optical technology. Governed by an international ISO standard, MO drives are now available with capacities of 230 MB per 3.5-inch disc and are expected to surpass 600 MB by 1996. Magneto-optical is also the technique Sony uses in MiniDisc and MD data recorders.

A second optical recording technique, shown by Matsushita at the Japan electronics show, uses the laser beam's heat to change the phase of structure of the recording surface from an amorphous state to crystalline and back again. It is this ability to change structure and reverse that is the basis of the rewritable CD-Rom/optical drive.

It is likely that when CD-Rom/phase-change drives appear in the shops next year, they will be the only game in town for those who want to read pre-recorded software and multimedia data CDs in a drive that can both read and write the same amount of data at the same speed. The only alternatives available now involve two drives, a conventional CD-ROM combined with a 650+ MB hard disc drive or one of a few very expensive optical recorders currently produced for commercial and industrial applications.

## PEOPLE

## BZW's new deputy chief executive

The heir apparent to David Band at the helm of BZW, Barclays' investment banking arm, emerged yesterday with the appointment of Donald Brydon, chairman and chief executive of BZW Asset Management, as BZW deputy chief executive.

Brydon, right, who has been responsible for growing funds under management at BZW Asset Management to £50bn and spreading its international activities, takes over from John Spencer, who will be leaving BZW at the end of the year.

Although Band is expected to remain chief executive for at least two years, Brydon's appointment completes the reshuffle of senior management at BZW intended to prepare for a new generation of leadership in the second half of the decade.

Unlike Spencer, who combined the role of deputy chief executive with being head of BZW's markets division, Brydon will give up his line management responsibilities to work alongside Band heading BZW's management committee.

He will be succeeded as BZWAM chief executive by Lindsay Tomlinson, the current deputy chief executive.

Brydon will be non-executive chairman of BZWAM, and will also join the group executive committee which runs the Bar-

clays group. Band, who has been chief executive of BZW since 1988 and has been at the helm during a period of rapid growth and diversification, may succeed Sir Peter Middleton as chairman of BZW when he gives up the chief executive post.

Brydon, who is 49, said that the firm's growth meant that "a more complex style of management" was required.

Brydon took over at BZWAM in 1991. He has a mathematics degree and helped to introduce quantitative techniques there, but is modest about his skills. "I wouldn't describe myself as a mathematician. I am numerate maybe," he says.

Midland's chief executive at the end of March, his deputy, chief financial officer, head of human resources and Midland's head of credit and risk have all been drafted in from the Hongkong Bank.

A couple of months ago Christopher Sheridan, 51, quit as chief executive of Midland's Samuel Montagu after ten years in the post. Sheridan, who joined Montagu in 1982, has been replaced by Keith Harris, a former Morgan Grenfell and Drexel Burnham Lambert merchant banker who was managing director of the corporate finance arm of Apex Partners, the venture capital group.

Roger Downham, 50, director of Midland Bank Property Ser-

## Hook nets leading role

Ivory & Sime, the quoted Edinburgh-based fund management group, is getting a new managing director.

Allan Munro, who has held the job since 1991, is stepping down and being replaced by Colin Hook, 52, who joins from Caledonia Investments, the holding company controlled by the Cayzer family which took a 29.9 per cent stake in I&S in July.

David Newbigging, chairman, said Munro had told him earlier this year he wished to step down to concentrate on his speciality, managing fixed interest portfolios.

Munro was a member of the management committee which took over the running of I&S in 1990 after the previous managing director David Ross and four senior fund managers abruptly left.

Hook was founding managing director and shareholder of J Rothschild Charterhouse Management and Global Asset Management (Asia), two Asian fund management businesses in Hong Kong.

His appointment is cautiously welcomed in Edinburgh investment management circles. "Probably the first and I&S have ever had from outside the company. He could be a new broom," one observer said yesterday.

## O'Shea moves up at Halma group

Stephen O'Shea has been appointed to the new post of deputy chief executive at Halma Group, the fast-growing safety and environmental technology concern.

The promotion of O'Shea, 48, below, is designed to give more "central horsepower" according to David Barber, who remains chairman and chief executive. Over the past two years, the number of companies within Halma has grown from 30 to about 45.

The appointment suggests the beginnings of a succession policy. Barber, 62, chairman since 1973, said no further

changes are planned in the short-term but added that O'Shea, in his new position, was clearly "the favourite candidate" to replace him.

Barber has turned Halma into one of the UK's most successful specialist engineering companies, with subsidiaries in environmental control, fire detection, gas detection, safety and security. In June, it announced a 20 per cent rise in annual pre-tax profits to £25.1m.

O'Shea was previously Halma's divisional chief executive responsible for both the fire detection and gas detection divisions; he will have overall responsibility for these businesses and the security division.

He is replaced by Neil Quinn and Ralph Jessop at fire detection and gas detection respectively.

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SEE PAGE 14

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FINANCIAL TIMES  
Newsletters



Nicolas Poussin is one of the great panjandrums of the history of painting. Almost the exact contemporary of Rembrandt in Holland and Velasquez in Spain, he was the greatest French painter of the 17th century, indeed the first great French painter of the modern, post-Renaissance era.

That he came out of France both figuratively and literally, spending all but a couple of years of his mature career in Rome, simply confirms his European reputation and influence. For he united within a single oeuvre the warmer, more sensuous and instinctive Italian tradition with the cooler, more cerebral tradition of the north. He also set the programme for the development of neo-classicism that ran on through David and Ingres and has continued in constructivist and analytical practice and tradition, from Cézanne and Mondrian to the minimalism of our own times.

Indeed the problem with Poussin, if problem it be, has largely been a function of his acknowledged importance and the general seriousness in which he is held. "Signor Poussin", said Bernini tapping his forehead, "is a painter who works up here." Such respect is all very well, but it is inclined to get in the way of the work itself.

The scholars of art have a field day with Poussin, loving him for the recondite complexities of his references, and absorbed by the problems of attribution and chronological development he sets them. As for the artists, to them Poussin is the supreme organiser and constructor of the image, the supreme analyst and integrator of form and cap, the supreme controller of tone and colour.

There is to his work a simple authority, assured and inevitable, that quite takes the breath away. How calm it all is, how exactly right in every gesture and expression, how entirely free of fudge and hurry and histrionics. All is worked out, definitive in its presence, ideal in its essence, artless in its apparent simplicity and completeness, yet so full of art. No wonder that Cézanne was moved to say, two centuries on, that his only wish was "to do Poussin again, but from Nature", as though to suppose in all sincerity that Poussin had taken nothing from the real world, had made it all up.

The thrill of the magnificent and comprehensive review of Poussin, now on in Paris, is that while it gives us these two views of this great master's work exactly - the scholar's and the artist's to both their hearts' content - it goes far



'Le triomphe de David', 1628, by Poussin: he may have been cerebral, but he was also experimental, sensuous and full of wit

## Master of simple authority

William Packer admires a magnificent review of Poussin's work in Paris

beyond each limited response to give us the whole artist. Here he is, cerebral and technical to be sure, but also free and experimental, sensuous and intuitive, and full of wit.

The drawings are an especial interest and pleasure and, quite rightly, are given due prominence - though I would question the wisdom of showing such naturally dense and absorbing material *en bloc*, most of all the early drawings that fill the first room, for they inevitably create a traffic jam of visitors at the very outset of the show. That said, they are not to be missed, for they are not only extremely rare, delicate and beautiful things but they offer a peculiar

insight into Poussin's working methods.

Here, lightly and freely stated, we see the first intuitive registering of his pictorial ideas, with each then radically simplified, almost to modern eyes to the point of abstraction - shades of Cézanne, Picasso, Bonnard - by the application of a stark chiaroscuro wash for the shadows. Thus are the essential structure and dynamic of each composition established, here a battle, here a bacchanale, reduced to a set of vigorous directional strokes.

The paintings take us through the full range of the work, from the earliest mythologies and history paintings before the migration to Rome, to the mysterious and elegiac

landscapes with cities and figures of the later years. Poussin had stopped at Venice for a period on his way to Rome, and the influence of the idealised arcadian vision of such as Bellini, Giorgione and the young Titian is clear enough. So much is known and recognised, but always rather in the letter than the spirit. Here it is the evident sensuousness of Poussin himself, Venetian perhaps in origin but transformed by his own clear purposes and intellect, that comes as the glorious surprise.

So much for the stoical Poussin, looking rather to the classical than to the Christian model for his austere moralities - yet how lightly his nymphs and goddesses flirt and

turn, or stretch and dream beneath the trees. And how beautifully seen they are, and so lovingly drawn and painted. The two great sequences of the sacraments are shown complete, and in the earlier "Extreme Unction", from Belvoir Castle, the dying man lies surrounded and urgently attended on the bed. Alone to the right, the pretty serving-maid slips out to fetch more wine, turning to smile at us as she goes. Life goes on.

Nicolas Poussin - 1594-1665: Galerías nacionales du Grand Palais, Paris 8me, until January 2, then on to the Royal Academy, London. Sponsored by LVME/Moët Hennessey; Louis Vuitton



Great performances: Carol Starks and Sheila Reid

French and English-speaking Canada should stick together despite their differences, or that Quebec should get on with the separation.

The flaw is the absence of action. *Aurélie, My Sister* is a peculiarly passive play. It might be better as a novel: certainly it has possibilities as a movie where the camera could range to scenes which are here only referred to in the dialogue.

Given the text as it is, however,

nothing can detract from the performances of Sheila Reid as Aurélie and Carol Starks as Cat. Both have a quiet dignity, even beauty; neither has much of a chip, despite the circumstances. The set, full of old books, rag dolls and all the paraphernalia of half a life-time, is Aurélie's conservatory, plants and vegetables to the fore. She seems content to be there, and so does Cat. Laurence Boswell directs. I do not

wholly like the technique of pulling a semi-transparent curtain round the stage between scenes, especially when nothing much is changed, but it does have the effect of suggesting a kind of therapy. There are characters who need to be treated carefully, wrapped and unwrapped: otherwise they might go mad.

Gate Theatre until November 4. (071) 229 0706

### Opera in concert/David Murray

## An enlightened 'Euryanthe'

We are in debt to the Orchestra of the Age of Enlightenment, the South Bank's "associate orchestra", for many enlightening performances. On Sunday, however, Carl Maria von Weber's opera *Euryanthe* came up like a revelation: who would have believed that it could be so stirring? Happily, the Queen Elizabeth Hall was packed out with the OAE's devoted audience - but it is a thousand pities that *Euryanthe* is not running for two or three evenings more. The "Deutsche Romantik" series will be lucky to strike gold again with such éclat.

*Euryanthe* came two years after Weber's *Der Freischütz*, and less than three before his *Oberon* for London and his untimely death here (he was not yet 40). Unlike the popular folk-tale *Freischütz* it has an old-fashioned chivalric plot, generally agreed to exceed the limits of preposterousness. (The story is so batty that even the programme was muddled about just whose suicidal sister's ghost needed laying.) That said, Weber set about animating every moment with direct, passionate feeling and a wealth of original resource.

That was what we heard on Sunday: not just a performance that was often thrilling, but a proclamation that *Euryanthe* really is a magnificent operatic score. Everyone who collaborated in it was on peak form. A special mention is due to the bass-baritone Nicholas Holwell, who had learned the role of the villainous Lysclart at very short notice, and delivered it with grim confidence and a torrent

of lustily rolled "r"s. The hapless heroism herself was Christine Brewer, who explored the surprising range and depth of her part with exquisite sensitivity. Nicely matched against her, Elizabeth Connell lent her familiar, formidable powers to the wicked Eglantine. Jon Garrison was a stylish hero, Adolar, in the lesser role of the King, young Nathan Berg's beautiful baritone reminded us that he is a star in the making; and in faceless small parts Elizabeth Woollett and Timothy Robinson made positive marks.

The hero of the evening was nevertheless Mark Elder, conducting the OAE with tireless energy and imagination. Not only the main numbers, but all the fluid "recitatives" - misleadingly so called, for scarcely any of them are mere declamation over chords: Weber - and Elder - shaped them lovingly, instilling them with moment-to-moment drama and dressing them often in unheard-of orchestral colours.

In all that, the OAE's "original"-style instruments came superbly into their own. Wonderful are *humans* bassoons, dewy flutes, a clattery hubbub of horns, trombones with a hoarse, rousing blat that never dominates over the tutti sound. Perhaps half the problem with *Euryanthe* in this century has been that Weber understood his own instruments so perfectly, and deployed them so brilliantly, that modern playing-machines can never do him more than dusty justice.

Sponsored by the John S. Cohen Foundation

### Music Theatre/Paul Driver

## The Poisoned Chalice

The one virtue of *The Poisoned Chalice*, an opera scripted and composed by Tony Britten, being premiered by Music Theatre London at the Drill Hall, is brevity. Its two acts are not much more than half an hour apiece. The interval is on you just as you feel the need to run out screaming into Chimes Street; and those who steel themselves to go back in will be pleased to find that this is unusual among bad operas in lacking the defect of long-windedness.

Indeed, its concision is like a slap in the face. The four characters in brilliant white process at the start on to Simon Riglett's tilted silver disc, deliver some solemn choral thoughts, and embark on what will be very many individual circlings of the platform, singing as they walk, taking care to avoid the little tree, and all involved in a drama that has evidently been going on for some time before we arrived. Gradually we settle into the idea that this is a story and not just a bawling contest, and recognise old friends in Arthur, Guinevere, Lancelot, and Morgan Le Fay.

For it is the "Matter of Britain" that Tony Britten says has always, since childhood, drawn him on and driven him to pen the doggerel libretto and doggerel-like score of this *Chalice*. His feeling for prosody is remarkable - extra syllables just crammed in where necessary and the music stretched to fit. What he says is even worse than how he says it: utterances of pure unadorned bathos which contaminate you with the deadly,

confident clasp of bad art. Britten - an artistic director of Music Theatre London, along with the evening's stage-director Nicholas Broadhurst - has composed much for television and films, but the *Chalice*'s music has scarcely the inventiveness of a soap-powder jingle. It was performed by a quartet consisting of conductor/keyboardist Jonathan Rutherford with flute, cello and percussion players at least two of whom were not the musicians named in the programme. Perhaps they had bolted in horror at an insipid tonal idiom - tonal, that is, with a few obligatory raucous gestures - which seemed to my unskilful companion like the Hecklers' answer to the Birkenhead opera *Gaia* they so deplored.

It must have been a hard job finding the singers, too. Swedish soprano Sara Junberg's Morgan at least had some sort of voice. Mary Lincoln's Guinevere tried hard to make us believe she had one. Both parts, alas, required considerable vocal prowess. Billy Hartman's Lancelot was too stiff, Andrew C. Wadsworth's Arthur not stiff enough. He just slouched there in his burly pose with the cool self-possession of someone about to order a drink. At the opera's end each character is resolved into an allegorical single word - "Stability" (Arthur), "Honour" (Lancelot), "Power" (Morgan), "Love" (Guinevere) - which they keep repeating. "Love" has the last word. But I should add "Vanitas". This is a show that should never have reached the boards.

### Theatre/Malcolm Rutherford

## Aurélie, My Sister

Incest may be rife in Quebec: even if it isn't, it is taken remarkably calmly when it occurs and can be beneficial to family relationships, or so we learn from the new production at The Gate.

*Aurélie, My Sister*, by the prolific French Canadian, Marie Laberge, is beautifully acted, meticulously directed and has one of the most lovingly detailed sets ever seen in this theatre. It is also very well written. But it is not much of a drama.

The plot is complex and tends to unfold backwards. There are only two characters: the 45-year-old Aurélie and the near 25-year-old Cat, who could be her daughter. Their relationship is close and friendly. Cat is having an intensely physical affair with a married man whom she hopes will leave his wife. She tells Aurélie all about it. In what seems a fairly banal development the man decides to spend more time with his family.

Yet this is only a teasing, though longish, start: almost a decoy, just as Hitchcock and Truffaut have

been mentioned in the early dialogue. Cat is not Aurélie's daughter: she is her young sister. She was conceived by their father in a fit of incest with Aurélie's other sister, Charlotte. The latter has packed her bags and gone off to sculpt in Italy, leaving Cat in Aurélie's care.

Most of this comes out about half way through when Cat and Aurélie return from the father's funeral in small town Quebec.

If the play has a coherent theme, it is that life in French Canada can be petty and bigoted, but that human relationships can survive in unexpected forms. Aurélie, who is divorced, says that she was brought up with a terror of God and sex. She declares herself a pagan like her father, but adds that "in this neck of the woods, you don't have to be a Catholic to have all the symptoms".

Nevertheless, Quebec seems reasonably affluent. Aurélie and Cat are seldom less than well dressed and the friendship between them is civilised - closer perhaps than between a real mother and daughter. One can just about read into the text a political allegory: either

with cast headed by Joan Rodgers and Dean Peterson (020-625 5455)

### BASLE

Stadtcasino Tomorrow, Thurs: Theodor Guschlbauer conducts Basle Symphony Orchestra in Elgar's Violin Concerto (Ortrud Sikowsky) and Beethoven's Sixth Symphony (061-272 1178)

### BRUSSELS

Monnaie Tonight, Sat: Antonio Pappano conducts Achim Freyer's new production of Tristan und Isolde, with Ronald Hamilton and Anne Evans (02-218 1211) Théâtre National Tonight, tomorrow: Tony Kushner's play *Angels in America* - first part: Millennium Approaches (02-217 0303)

### CHICAGO

MUSIC Chicago Symphony in tonight's concert, James DePriest conducts works by Stravinsky and Mozart, with piano soloist Misha Dichter. Thurs, Fri, Sat and next Tues: Michiyoshi Inoue conducts Mozart arias and Mahler's Fourth Symphony, with soprano Sylvia McNair (312-435 8666) Lyric Opera Mirilla Freni and Plácido Domingo star in Giordano's *Fedora* tonight and Fri (continues till Nov 10). The *Reise's* Progress can be seen tomorrow and Sat (till Oct 28), with a cast headed by Jerry Hakey, Ruth Ann Swensen, Samuel Ramey and Felicity Palmer (312-332 2244) THEATRE ● *Angels in America*: the national

touring production of Tony Kushner's two-part epic is directed by Michael Mayer, with Jonathan Hadary as Roy Kohn (Royal George 312-988 9000)

● The Sisters Rosensweig: Wendy Wasserstein's hit Broadway comedy about the mid-life reunion of three Jewish sisters from Brooklyn (Shubert 312-902 1500)

● The Winter's Tale: Shakespeare Repertory has the Chicago market cornered on productions of the Bard's works. Artistic director Barbara Gaines has a go at his late romance. Opens on Fri for six weeks (Shakespeare Repertory 312-542 2273)

● A Clockwork Orange: the American premiere of the stage version of Anthony Burgess' classic novel seen at the RSC several years ago. Terry Kinney directs a cast that includes Chicago favourite K. Todd Freeman. Till Oct 30 (Steppenwolf 312-335 1650)

● The Who's Tommy: the touring version of the Broadway hit musical about the pinball wizard who becomes a media sensation. Till Oct 30 (Auditorium 312-902 1500)

### GHEENT

de Vlaamse Opera Tonight, Thurs, Sat, next Tues and Sun: Silvio Varviso conducts Guy Joostan's production of Don Giovanni, with cast headed by Jeffrey Black, Hillevi Martinpelto and Patricia Racette (09-225 2425)

### THE HAGUE

Dr Anton Philipszal Tonight: Samuel Friedman conducts Moscow State Radio Orchestra in works by

Tchikovsky and Borodin. Thurs: Netherlands Chamber Chorus in works by Rakhmaninov and Ligeti. Next Mon: Philippe Entremont conducts Netherlands Chamber Orchestra in Weber, Mozart, Berg and Haydn, with violin soloist Olivier Charlier (070-360 9810)

### ROTTERDAM

De Doelen Thurs: José Carreras. Fri: Roberto Paternostro conducts Wittenberg Philharmonic in works by Weber, Grieg and Beethoven, with soprano Karl Löwens. Sat, Sun afternoon: Ed Kees conducts Rotterdam Philharmonic Orchestra in Bizet and Schostakovich (010-217 1717)

### VIENNA

● The Danish Radio Symphony Orchestra gives concerts tomorrow and Thurs at the Musikverein, with repertoire including Nielsen and Sibelius. Rafael Frühbeck de Burgos conducts the Vienna Symphony Orchestra in Mahler and Musorgsky/Ravel on Sat, and Neeme Järvi conducts the Götterburg Symphony Orchestra on Sun morning and Mon evening in works by Sibelius, Part, Stammar, Tübin and Alfvén (505 8190)

● Cecilia Bartol gives a song recital on Sun at the Konzerthaus (712 1211)

● Vienna's annual contemporary music festival, Wien Modern, opens on Sun and runs till Nov 28. This year's programme focuses on Morton Feldmann, George Crumb, Helmut Lachenmann, Karl Schiske and Günter Kahowetz (7124 8860)

● The Staatsoper is closed for

technical alterations till Dec 14. Repertory at the Volksoper includes a new production of Nicolai's comic opera *Die lustigen Weiber von Windsor* (51444 2959/51444 2969/513 1513)

● Riccardo Muti conducts seven performances of Roberto de Simone's production of *Cost* fan tulle at Theater an der Wien, starting Oct 30 (58885)

### WASHINGTON

MUSIC/DANCE ● Pennsylvania Ballet is in residence this week at Kennedy Center Opera House. It gives the premiere tonight of a new work by David Parsons, and repertory also includes works by Balanchine and Paul Taylor (202-467 4600)

● David Zinman conducts the Baltimore Symphony Orchestra tomorrow and Wed at Baltimore's Joseph Meyerhoff Symphony Hall. The programme includes Barber's Violin Concerto (Anne Akiko Meyers) and Brahms' First Symphony (410-783 8000)

● Michael Stern conducts the National Symphony Orchestra on Thurs, Fri and Sat at Kennedy Center Concert Hall. The programme includes Ravel's Piano Concerto in G (Alicia de Laroccha) and Dvorak's Sixth Symphony. Seiji Ozawa conducts the Boston Symphony Orchestra in works by Takemitsu, Brahms and Mozart on Sat late afternoon, with piano soloist Ursula Oppens. Pinchas Zukerman directs the English Chamber Orchestra on Mon in Bach, Haydn, Mozart and Dvorak (202-467 4600) THEATRE ● *Defending the Caveman*: a

one-man show written by and starring American comedian Rob Becker, using humour to help define the differences between the two genders. Till Sun at Warner Theater (202-432-SEAT)

● Old Times: Washington Stage Guild presents Harold Pinter's three-hander about power within relationships. Opens tomorrow (202-820 2084)

● The Foreigner: Joe Sears and Jason Williams star in Larry Shue's comedy, directed by David McKenna. Till Sun at Ford's Theater (202-347 4833)

● Henry IV: this adaptation of Parts I and II of Shakespeare's history plays is directed by Michael Kahn. A Shakespeare Theater production at the Lansburgh. Till Oct 30 (202-393 2700)

● A Perfect Gansel: Terrence McNally's play about two New England matrons on a personal quest journeying through India. Till Oct 30 at the Kresger (202-468 3300)

● The Cherry Orchard: Chekhov's play is directed by Irene Lewis at Center Stage. Till Oct 30 (410-332 0033)

### ZURICH

Opernhaus Tonight, Thurs, Sat: Nikolaus Harnoncourt conducts the Ponnelle production of *Entführung*, with cast headed by Eva Mei and Dean van der Walt. Tomorrow, Fri: Ralf Welker conducts Ruth Berghaus' new production of *Katya Kabanova*, with cast headed by Ana Pucar and Peter Straka. Sun: La Cenerentola. Mon: Carlo Bergonzi song recital (01-262 0606)

### ARTS GUIDE

Monday: Berlin, New York and Paris. Tuesday: Austria, Belgium, Netherlands, Switzerland, Chicago, Washington. Wednesday: France, Germany, Scandinavia. Thursday: Italy, Spain, Athens, London, Prague. Friday: Exhibitions Guide.

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FRIDAY NBC/Super Channel: FT Reports 1230 Sky News: FT Reports 0230, 2030

SUNDAY NBC/Super Channel: FT Reports 2230 Sky News: FT Reports 0430, 1730;

## INTERNATIONAL ARTS GUIDE

### AMSTERDAM

Concertgebouw Tonight: Serge Baudo conducts Netherlands Philharmonic Orchestra in works by Tchaikovsky, Prokofiev, Messiaen and Debussy, with violin soloist Leonidas Kavakos. Tomorrow, Thurs: Riccardo Chailly conducts Royal Concertgebouw Orchestra in Stravinsky and Brahms (preceded tomorrow by a free lunchtime concert). Tomorrow (Keine Zaal): Frankl, Paul, Kirshbaum trio. Fri: Chailly conducts Schoenberg, Ravel. Sat, Sun afternoon, next Tues: Ken-Ichiro Kobayashi conducts Netherlands Philharmonic Orchestra in Beethoven, Grieg and Tchaikovsky. Sat (Keine Zaal): Thomas Zehetmair violin recital. Sun: Maria Joao Pires piano recital (24-hour information service 020-875 4411 ticket reservations 020-871 8345) Muziektheater Tonight, Thurs, Sun afternoon, next Wed and Sun: Graeme Jenkins conducts final performances of Jürgen Flimm's production of *Le nozze di Figaro*,





PERSONAL VIEW

In early 1994, Russia's economic prospects looked bleak. Industrial production and gross domestic product had fallen dramatically, inflation was running at almost 20 per cent a month and there were plans for a costly monetary union with Belarus.

Critics said the government had given up on economic reform, an assertion seemingly given new life last week by the dive of the rouble to almost Rb4,000 to the US dollar.

In fact, the Russian authorities have implemented an unprecedented austerity programme during 1994: policy-makers have responded to shortfalls in revenue with severe expenditure cuts, and high real interest rates have been maintained.

As a result, inflation is at its lowest levels since the economic reforms began and lending by the central bank has been so low that Russia has for the first time met its IMF monetary policy targets. At the same time, economic recovery is under way.

One reason for the critics' gloom is the fall in government revenue. Budget revenue has fallen from 29.5 per cent of GDP in the fourth quarter of 1993 to 26.3 per cent in the first half of 1994. This was due to changes in legislation, a profit squeeze as GDP fell and real wages stayed constant, and an increase in tax evasion.

However, the response to low revenue was not the widely-expected hike in central bank lending to government. Instead, government expenditure was cut from 35.3 per cent of GDP in the fourth quarter of 1993 to 32.8 per cent in the first half of 1994.

This is, by any standards, a serious fiscal austerity programme. It has been matched by successful efforts to increase tax compliance.

Another argument raised by critics is that monetary policy has been "loose" because the central bank is lending to the government at 10 per cent a year, well below market rates.

However, the amount of central bank lending to the government is restricted by credit ceilings. Because of these, quarterly central bank lending to government fell over the first half of 1994 from 8.8 per cent of GDP to 7.9 per cent.

Meanwhile, lending to other countries in the Commonwealth of Independent States has stopped. And lending to

## A case of cut and thrust

Jochen Wermuth on Russia's record of economic management



Viktor Chernomyrdin has implemented austerity measures

commercial banks is at high real interest rates, since the central bank has maintained high real refinancing rates since November 1993.

The last batch of central bank credits at low interest rates – the so-called "soft credits" – was allocated in the spring. Since then, soft credits have been counted as part of federal government expenditure and are no longer a source of monetary expansion.

True, government borrowing from the Central Bank of Russia rose in July and August. But this was a deliberate move. The government is required by the parliament to make annual expenditure equal to the sum of tax revenues and approved borrowing. In 1992 and 1993, monetary growth at the end of 1994 could average 3 per cent a month – providing ideal conditions for stabilisation in 1995.

In spite of this restrictive policy stance, unemployment remains low and a recovery seems under way. Official GDP for August 1994 was 20 per cent higher in constant prices than in January, and 12 per cent higher than in August 1993. Industrial production tumbled in May 1994 and has grown by around 1 per cent a month since. These figures are sup-

ported by statistics on energy consumption and evidence of a construction boom.

What prevents the country from taking off even faster are outstanding reforms in the energy and agricultural sectors, hidden subsidies to powerful lobbies and enterprises, and the failure to make enterprises bankrupt when they have no future.

The lack of an institutional framework for investors, such as registers to establish title to land, also means there is a lack of capital. Domestic saving has been low and Russia has remained a net exporter of capital. The government has been working on macro-economic policies for the next 10 years to pay back foreign debt. These include commitments that should help to attract long-term investment.

Furthermore, Mr Viktor Chernomyrdin, the prime minister, rejected the first budget and monetary programme for 1995, which aimed at an average inflation rate of 5 per cent a month. Instead, on October 9, the government, supported by the president, set a budget deficit target for 1995 of 4.5 per cent of GDP. The government plans to finance a large part of this deficit by issuing Treasury bills and with what could well be the last significant injection of foreign credits, rather than through central bank lending to government. At the same time, a stable exchange rate is to be maintained.

As a result of these plans, inflation should be down to less than 1 per cent a month by the second half of 1995 and annual inflation is forecast at 27 per cent for 1995. This is the culmination of a two-year policy of a gradual but substantial reduction in inflation.

Given economic fundamentals, the government's tough policy, and the increase in the central bank's refinancing rate, the recovery of the rouble after its fall last week is no surprise. The real exchange rate is, in fact, no lower than it was in December 1993.

However, last week's rapid devaluation is a warning to policy-makers against any return to loose policies. Genuine exchange rate stability is thus more politically feasible.

Russia is on the brink of moving beyond crisis management and could soon be a G8 country with low inflation, low inflationary expectations and low medium-term interest rates.

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Joe Rogaly

## A royal pipe-dream

The "Charles and Diana" story is the opium of the people. It attracts immense interest in most countries, but at home it does more. In Britain, gossip about the private life of the scions of the House of Windsor is an obsession of the tabloids, a quick-seller for the serious newspapers, dominant on the airwaves, an easy topic of conversation, the stuff of fantasy and scribbles' invention, marginal, fluffy, inconsequential – and, as such, a substitute for a bewildered national psyche. It is, in short, a constant distraction from genuine problems of governance, evidence of a polity thrashing around for a sense of purpose.

The latter is the serious element in an essentially unserious flow of media pap. It may be that this flow has lately been stimulated by the heir to the throne and his estranged wife, but that is beside the point. The British people approach the end of the 20th century as uncertain about their role in the world as at any time since the end of empire. Historians will be justified if they label it the century of moral decline.

The final decade is already looking inglorious. A prize for literature is awarded to a "novel" widely acknowledged to be illiterate. A fund is set up to spend the proceeds of a national lottery on celebrating the millennium, but no one, not even the minister in charge, has articulated a clear idea of what that means, or what there is to celebrate. At a conference of the governing Conservative party conference in Bournemouth last week the senior minister at our dining-table was asked what he made of it all. "You are addressing

our sensibilities are numbed. Nothing is sacred, least of all religion. There is some tut-tutting when a clergyman is dismissed for professing a lack of belief in God. Several of our television comedians appear to be motivated by a militant, even spiteful, atheism. The end of deference may be welcome, but in its place has come – a void. We revel in titillating accounts of the sexual misdeeds of this or that government minister and affect surprise when we hear that various officials, elected and appointed, appear to have been lining their own pockets, or allowing their relatives to do

the wrong person," came the reply. "I give little thought to these things. All we need to know is that most voters are monarchists. Nearly all of them hold the Queen in high regard. End of story."

Mr John Major concurs. "I think the monarchy has got its roots sunk so deep in the affairs of the people of this country that it is very sound and secure," the prime minister said yesterday. His confidence is supported by precedent. Two centuries have passed since James Gillray's caricatures savagely attacked the extravagance and promiscuous behaviour of the "voluptuary", the then Prince of Wales. The crown survived. Nearly 60 years have flown by since the abdication of Edward VIII was forced upon him when he declared his intention of marrying Mrs

Wallis Simpson, the American divorcee. His niece is still on the throne.

There is no constitutional reason why the Queen's eldest son should not succeed her. That he shall do so is, as it happens, the essence of the British constitution. The Prince's qualification for the job is that he is of his mother's blood. His private behaviour is irrelevant. This is not a change of mind on my part. I have long advocated the setting up of a federal republic of Britain. On the ground that the executive hides behind "crown prerogative" as an excuse for misgovernment. Hanging everything on the tag of the supposed royal command is a licence to print honours, a permit for the exercise of patronage.

Yet I would cheerfully salute the accession of Prince Charles if the throne were first to become detached from the executive, made contractually subservient to the people, and defined in a written constitution. It might then usefully be slithered down, becoming a "bicycle monarchy" as in northern Europe. It would certainly benefit from a period of reticence about itself, as the Duke of Edinburgh intimated yesterday. In such clearly-defined circumstances, the role of an hereditary king as a focus of loyalty to the nation – that is, of all of us to one another – could as well be fulfilled by Prince Charles as anyone. Better that, as they said at the recent Liberal Democrat conference in Brighton, than President Tebbit or, heaven help us, President Thatcher.

Meanwhile Queen Elizabeth II is more likely than not to reign well into the next century. The first queen bearing her name ruled during a flowering of English culture; hers were years of national glory. The second Elizabeth, possessed of few powers, has been less fortunate. She has been able to reign, but not rule. She has been steadfast and dutiful, but her governments have not covered themselves in glory. They have left the nation uncertain about whether it belongs to the continent to which it is attached.

As a nuclear power and permanent member of the security council, Britain retains the vestiges of its "great" past, but lacks the self-confidence to participate wholeheartedly in the affairs of the European Union. We cling to illusory "certainties", such as "sovereignty" and the idealised Victorian royal family. We know that reality lies elsewhere. Some – perhaps most – of us cannot bear the knowledge. To get through the night, we tune in to "Charles and Di," and go back to sleep.

Joe Rogaly

Charles and Diana have been subsumed into the production line of the media; they have become its primary raw material

in which, financial fables are revealed, some w o r d s whether the misdeeds of the media, they have become its primary raw material, second only to paper. They are the prince and princess of publishing. Their original image, that of the shy spooning couple, was a romantic fiction in the preparation of which they connived. They are now assisting in the manufacture of the salacious prose that may diminish or possibly even destroy one or both of them.

Does it matter? At the Conservative party conference in Bournemouth last week the senior minister at our dining-table was asked what he made of it all. "You are addressing

our sensibilities are numbed. Nothing is sacred, least of all religion. There is some tut-tutting when a clergyman is dismissed for professing a lack of belief in God. Several of our television comedians appear to be motivated by a militant, even spiteful, atheism. The end of deference may be welcome, but in its place has come – a void. We revel in titillating accounts of the sexual misdeeds of this or that government minister and affect surprise when we hear that various officials, elected and appointed, appear to have been lining their own pockets, or allowing their relatives to do

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Joe Rogaly

## LETTERS TO THE EDITOR

Number One Southwark Bridge, London SE1 9HL

Fax 071 873 5938. Letters transmitted should be clearly typed and not hand written. Please set fax for finest resolution

### Strength in unity is only UK option

From Mr J H de Raat.  
Sir, Norman Lamont's thoughts concerning the UK and the European Union place him some time in the first decade of this century ("Lamont says it may be necessary to pull out of EU", October 12). He need only look beyond his small island to see that the UK will wither and shrivel if it cuts itself off from the continent.

The economic power centres of the world are shifting to the east. China's enormous potential is only beginning to be realised.

Among the great advantages China has over western Europe is that it has so much to do in order to modernise. Not having progressed at the rate of the west, China can make use of the latest technologies without having to consider a loss on its investment in earlier technology.

China will indeed make its "great leap forward". Without strong competition from a united Europe and a reinvigorated North America, China will be far ahead by the middle of the next century.

In the face of the progress of China and some of the other countries in East Asia, the UK is not in a position to go it alone. Like the rest of Europe (of which, like it or not, it is a part), the UK will have to find strength in union.

The only other alternative I can see is for the UK to halt all further development and to turn the whole country into a museum. In 20 years or so the nation and its people could make a decent living by charging admission. How quaint it would be.

J H de Raat,  
Kantershof 54,  
1104 GC Amsterdam,  
The Netherlands

### University reform proposal is recipe for destruction

From Prof Tony Poinson.  
Sir, Your editorial, "University reform" (October 11), while being music to the ears of certain pressure groups who would subordinate a rational system of higher education to self-interest, will probably be quoted (and – God help us – used) to wipe out the UK system of higher education as an inferior competitor.

You suggest "a designated 20 or so universities" should be funded to do research, while others would be restricted to being teaching institutions. What this would mean is that there would be 20 universities in the UK. That may be an aim

espoused by the Financial Times – although there is absolutely no logic advanced for it.

Of course, many universities are currently inadequately funded to carry out their functions as places of teaching, learning and scholarship. The FT's contribution appears to be to propose they are destroyed before they can collapse.

Tony Poinson,  
chairman,  
committee of chairmen of research committees of new universities,  
University of Portsmouth,  
Portsmouth PO1 2UP

Basis for manufacturing's pleas survives intact

From Mr John Wells.  
Sir, Peter Robinson (Letters, October 11) errs in appearing to equate fixed investment in plant and equipment (p and e) with manufacturing investment in p and e. In fact, manufacturing now only accounts for 28.5 per cent of total p and e investment in the UK economy, down from 48 per cent in the early 1980s; the services, broadly defined to include internationally exposed and sheltered segments, account for the majority of economy-wide p and e investment.

UK manufacturing's miserable record in p and e investment can be gauged from the fact it now accounts for just 1.6 per cent of gross domestic product – against 3.2 per cent in the early 1960s. In absolute terms, UK manufacturing's p and e investment is no higher (at constant prices) than 20

years ago, but then output is no higher either.

The UK's comparative investment record internationally can best be gauged from the following data of the share of total manufacturing investment as a percentage of gross domestic product (averages for 1980-1992): UK: 2.1 per cent; Germany: 3.1 per cent; France: 3.2 per cent; Italy: 4 per cent.

Quite why UK manufacturing stagnates despite the recent sharp recovery in profits remains a mystery.

But the statistical basis for the industrial associations' pleas for fiscal incentives survives Peter Robinson's strictures intact.

John Wells,  
University of Cambridge Faculty of Economics and Politics,  
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Cambridge CB3 9DD

### Clear and velvet tones at their best

From Ms Gail Chan.  
Sir, I am writing to protest at your music critic's review of Kathleen Battle's recital with the Philharmonia ("Battle with the Philharmonia", October 14). To say that her rendering of Mozart's *Exultate Jubilate* was "a boring vocal display" is both grossly unfair and pitifully inaccurate.

It is well known that Miss Battle does not have a loud booming voice. I was sitting quite far back in the hall and I was apprehensive that I might not hear well. However, I found that I could hear her quite clearly.

The piece was sung with an abundance of subtle tone colours. Far from "one mezzo-forte-ish dynamic" she maintained a beautifully controlled and sustained fortissimo which was never harsh and strident. She sang with an apparently effortless mastery of the music which left the audience in a state of joyful bliss.

It is to Andre Previn's credit that he composed his song cycle *Honey and Rue* for Battle's voice. The result was truly magnificent. We were treated to a display of her velvet tones at their best, full of light and shade, and great warmth: a heavenly interpretation with its high point the fourth song "Do you know him" which, far from calling for "earthiness", requires and was rendered with a beautiful timeless ethereal quality. Only a very unmusical person could fail to be moved.

It is indeed sad when such great artistry is so ill received and unrecognised.

Gail Chan,  
31 Norland Square,  
London W11 4PU

## Foreign entrants to Italian retail market will need to seek partner

From Mr Alan D. Gordon.  
Sir, Neil Buckley's article, "Retailers' global shopping spree" (October 13), cited Italy as one of the "tough three" markets. We can confirm that it is "tough", especially for foreigners. It is changing rapidly, but "à l'italienne".

We have made four large studies of food retailing in Italy – the first in 1980 when the balance of power was firmly with producers and their problem was physical distribution costs in serving the large market. Those of 1987 and 1989 showed some increasing retailer toughness, but multinational producers still got 20-30 per cent higher prices for their grocery products in

Italy than in France or Germany due to the semi-collusive relationship with retailers to maintain high prices.

Our new study, just published, shows that, while pending legislative changes will probably allow the big to get bigger, the basic objective of large Italian retailers is to keep out any large foreign invasion (as in Spain) and ensure foreign entrants come in via a partner (for example, franchising) or on a joint venture basis.

There are examples of acquisition by Carrefour and Tengelmann, but the candidates are small and individually give little position.

Auchan has been trying to start from scratch in Italy and

has hardly made any progress, mainly due to bureaucratic obstruction. Foreign discount chains with small units are making some progress because of the lower threat to local interests.

The Coop is the largest retailer in Italy and voluntary chains and buying groups have a strong presence. The integrated "five sisters" (Rinascente, Snam, GS, Esselunga and Fam), plus the Coop, currently only hold 21 per cent of grocery food sales.

We forecast, however, that the top five groups (all categories) will hold 40 per cent in 2000.

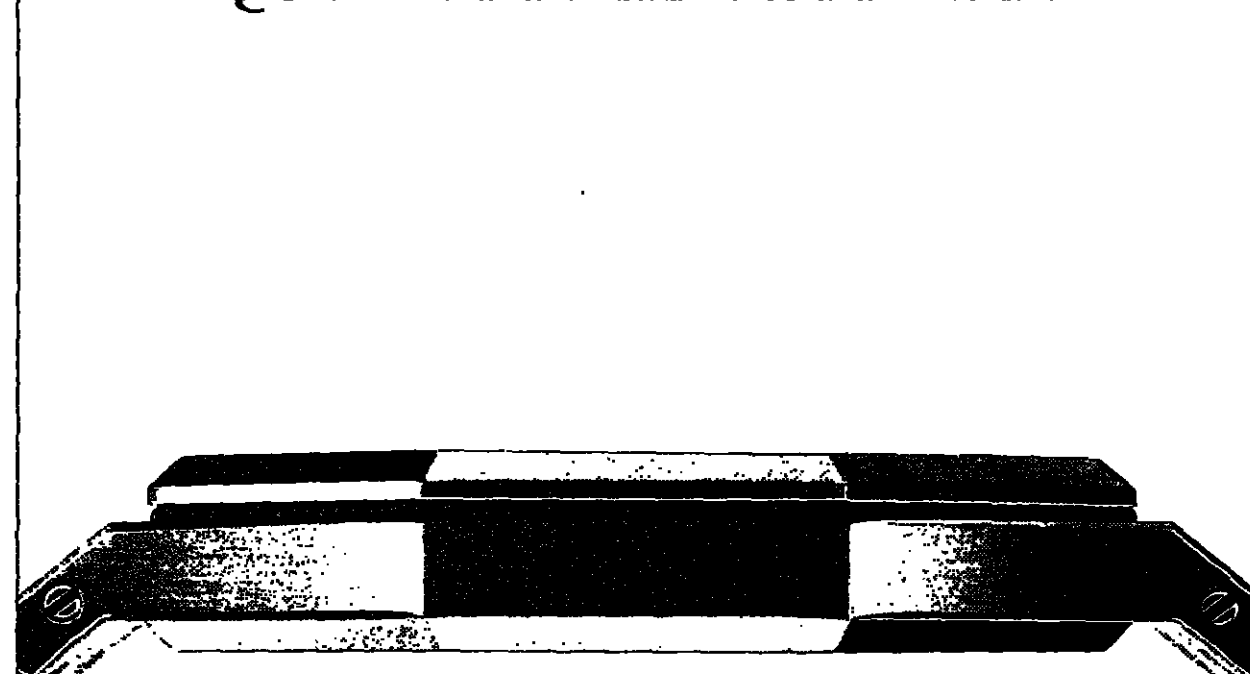
Producers are meeting growing demands for discounts, lon-

ger delays in payments, increased publicity costs, and tougher logistics requirements, while private label is starting to gain momentum. While Italian retailing is concentrating, potential foreign retailer entrants, to be successful, will have to find a suitable Italian partner.

It is not for nothing that in the cold-war days Italians boasted they would have converted invading Russian soldiers into Italians in 12 months.

Alan D. Gordon, chairman and managing director,  
Grag,  
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## FINANCIAL TIMES

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Tuesday October 18 1994

## Weaker rule in Germany

Despite the robust confidence displayed by Chancellor Helmut Kohl yesterday, his margin of victory in Sunday's German elections was uncomfortably narrow. The centre-right coalition's 10-seat Bundestag majority appears insufficient to guarantee passage of tough measures needed to improve Germany's economic structure, particularly cuts in public spending and taxation, and social security reform.

Modest recovery from recession will continue, but so will voter discontent caused by cuts in real incomes needed to correct post-unification economic imbalances. Mr Kohl's domestic problems may divert his attention from necessary efforts to show German leadership over European integration.

Mr Kohl owes his fourth term in office to his considerable electioneering skills. Mistakes by the opposition Social Democrats (SPD), and the innate conservatism of the German electorate, which since the war has never elected an incumbent government. None the less, there is a risk that the coalition between the Christian Democrats (CDU) and the liberal Free Democrats (FDP) may not last the full four-year parliamentary mandate.

The share of the vote registered on Sunday by both senior parties, the CDU and SPD, was well below the average of the past 30 years. Voting fragmentation, reflected in the strength of the Greens and reformed east German communists (PDS), will make the future policies and alliances of government and opposition prone to complex political arithmetic.

Reflecting the shrunken Bundestag majority and the Social Democrats' hold over the Bundestag, which has a veto over tax legisla-

tion, the coalition's power to introduce radical legislative initiatives has now crumbled. It is true that Chancellors Willy Brandt and Helmut Schmidt survived two past legislative periods with similarly slender majorities. However, in 1969 and 1976 the Social Democrats' comparatively fresh coalition with the Free Democrats was probably in a fundamentally stronger state than Mr Kohl's 12-year-old government.

Much will depend on how the Free Democrats adjust to the loss of power and prestige caused by a string of election setbacks. Mr Kohl's recent rejection of his coalition partner's calls for tax cuts indicates the FDP's difficulties in maintaining its traditional high profile as an exponent of free market policies. On the other hand, the FDP leadership, knowing that many voters now see it as little more than an ersatz CDU, seems unlikely to risk a trial of strength with Mr Kohl by threatening to defect to the SPD in mid-term.

The questions facing the SPD under its chairman and future parliamentary floor-leader, Mr Rudolf Scharping, are still more painful. It has lost four successive general elections, and leadership divisions during the recent campaign have left fresh scars. Mr Scharping's task is to mount an energetic yet constructive challenge to Mr Kohl, particularly over economic policy, that will strengthen the SPD's credentials as a party of government. Given the SPD's strength in the Bundestag, the new government in Bonn will in some ways be behaving like a *de facto* Grand Coalition. If Mr Scharping can use his leverage wisely, and restrain those within his party wishing an overt alliance with the PDS or the Greens, he may yet reap his reward.

## Inward &amp; upward

Last week the ex-chancellor, Mr Norman Lamont, declared himself "unable to pinpoint a single concrete economic advantage" that comes to the UK from its membership of the European Union. A trip to Cleveland and Durham ought to make him think again.

Samsung and Fujitsu yesterday joined a growing list of foreign companies that have recently decided to invest substantially in their UK sites. Such companies are apparently happier to invest in the UK's economic future than many of their home-grown counterparts have been of late. But Mr Lamont and others should be under no illusions: these foreign direct investors are betting money on a future within the EU, not without it.

Not so long ago, yesterday's announcements by Samsung and Fujitsu would have been met with little but complaints. Once the world's leading manufacturer, the UK was said to be becoming merely a site for the "screwdriver" operations of foreigners eager to escape European import barriers.

Why are these complaints not heard today? Some would put it down to a new realism about the

UK's economic options. But it is also the fact that Japanese direct investment has yielded considerable benefits to both sides. The latest census data indicates that foreign-owned manufacturing enterprises achieved an average 31 per cent higher net output per employee than domestically-owned enterprises in 1991. This is to be expected: the companies coming to the UK are some of the most successful in the world. But that is merely another argument in favour of such investment. Low-cost labour, the English language and membership in the EU are clearly a large part of the UK's attractiveness. The Nissan plant in Sunderland, for example, was a simple assembly operation for European sales when it was announced in 1984. From such beginnings, however, grew a plant that is now the UK's largest car exporter, employing 4,600, up from an initial 470. With luck, Cleveland and Durham will provide similarly good examples for UK companies to follow. Maybe the latter should also acquire the Asians' quiet trust that the sentiments of Mr Lamont and others will not prevail.

## Precarious peace

The Middle East peace process took another important step forward yesterday with the initialing of an outline agreement between Israel and Jordan. With the Hashemite kingdom on the path completed only by Egypt, there is a mounting sense that the process is irreversible.

Confidence would have been greater had it not been for events last week in Israel, where Palestinian extremists came alarmingly close to wrecking much of what had been achieved. The alarm is all the greater because the main proponents of peace knew all too well of the dangers in over-reacting to such calculated provocation. Hamas, on the one hand, and a Jewish extremist fringe on the other, have both shown this year their capacity for politically motivated murder. The terror attack by Hamas in central Jerusalem last week, and the subsequent kidnapping and killing of an Israeli soldier, are part of a depressingly predictable pattern.

Mr Yitzhak Rabin, Israel's prime minister, is right to expect that the Palestinian police force should maintain order in the newly-liberated territories. But to attempt to link the future of the peace negotiations with the ability of the Palestinian police to prevent Hamas from committing acts of terror in Israel proper is dangerous.

Although Mr Rabin and Mr Yasser Arafat, the Palestinian leader, find no pleasure in each other's company, they share a common objective in seeking to blunt the appeal and activities of Hamas in its bid to sabotage the peace agreement. To this end, the security forces of both sides need to co-operate, not to apportion exclu-

sive responsibility and subsequent blame for security failures. At the same time, the two men need to work on limiting the appeal of Hamas to the wider Palestinian population, which means redressing the economic deprivation and political grievances that are still rife throughout the occupied West Bank and liberated parts of the Gaza strip.

There is culpability on both sides for failing to move the peace process forward with greater urgency. Mr Arafat's reluctance to consult or delegate has delayed the creation of an effective bureaucracy, and with it hundreds of millions of dollars in international aid. Mr Rabin's desire to tie down every last detail of each accord in a way which stifles any sense of Palestinian self-determination has served to dissipate much of the goodwill that surrounded the initial breakthrough. Withdrawal of Israeli forces from the rest of the West Bank and elections for Palestinians are urgently needed. Israel should allow the elections fairly to reflect Palestinian opinion and should recognise their results, whether they legitimise Mr Arafat's leadership or replace him with others more capable of pursuing Palestinian aspirations. The practice of democracy can only assist peace.

The agreement initiated in Amman yesterday has contributed to sustaining the wider momentum for peace, while continuing US efforts offer hope for progress between Israel and Syria. But events of the past week have been a reminder of how critical the core issue of Israel's relations with its Palestinian neighbours is to the entire fabric of peace.

In the small hours of Germany's Monday morning, any normal political animal would have been wide awake, frantically following every last election return to determine the fate of Chancellor Helmut Kohl's government.

Computer predictions put his overall majority at two seats, a cliff-hanging result well within any normal margin of error. Only three-quarters of the seats were counted by midnight, and most of the remainder were in unpredictable territory in east Germany. On the face of it, it could have gone either way.

But in Bonn, at midnight, most German political animals were in bed.

In the first place, Mr Kohl had said he had won, so they believed it. Indeed, Mr Rudolf Scharping, the leader of the opposition Social Democratic Party (SPD), had virtually admitted defeat. And secondly, they knew that even a two-vote majority would not necessarily spell chaos and instability in the German political system.

Long past bedtime, it emerged that the chancellor's conservative-liberal coalition had actually survived with a 10-seat majority, a dramatic drop from its lead of 194 in the outgoing parliament, but, in Mr Kohl's words, "a perfectly good working majority".

Yesterday, the markets took it all in their stride. The Frankfurt stock exchange put on an initial 2 per cent, before falling back later in the day in "muted" trade. The bond market was relaxed.

But the political establishment was split down the middle over whether the current coalition would survive its full four-year term.

"They won't even last a year," Mr Rudolf Dressler, social affairs spokesman of the SPD, said yesterday. "There is no reason why they shouldn't survive a full term," said Mr Klaus Beck, head of the Bonn liaison office of the trade union federation.

Everyone accepts that a tiny majority is not in itself a disaster. Former Chancellor Helmut Schmidt survived with a 10-seat majority from 1976-1980, and his predecessor, Mr Willy Brandt, had a 12-seat margin from 1969-1972. The government of the north German state of Schleswig-Holstein has been in power with a one seat majority since 1992. There are no mid-term by-elections, and German governments are anyway slow-moving, consensus-based creatures, which avoid conflicts at all costs.

The trouble for Mr Kohl is that his coalition contains political strains which have been under pressure for several years and the finely-balanced election result could just bring them to breaking point.

Quentin Peel examines the challenges ahead for Chancellor Helmut Kohl's coalition government

## Battle to hold the middle lane



And the government agenda in the coming four years is certain to include some issues that could provide the material for deep divisions.

For a start, it must tackle the question of tax reform, of both income tax, which is the chancellor's priority, and company tax. Another key question is the scoring cost of the welfare state, and how to control it. And privatisation and deregulation are also potentially divisive issues for the members of the coalition. And so is the need to take tougher action to enforce law and order, and cope with organised crime.

Only foreign policy looks to be an area of relative harmony.

Everything depends on the highly unpredictable Free Democratic Party (FDP), the liberal minority partner in the ruling coalition, and the big loser in Sunday's general election. It emerged from the poll with just 47 members in the 672-seat Bundestag, compared with 79 in the

previous parliament. But it still holds the balance of power between Mr Kohl's Christian Democrats and the opposition SPD.

The party, led by Mr Klaus Kinkel, the foreign minister, has fought a string of disastrous election campaigns during the year, losing all its seats in 10 state parliaments, and in the European parliament, because it failed to get more than the required 5 per cent minimum share of the vote. In east Germany, in particular, its philosophy of free market liberalism has failed to find any response.

It scraped into the Bundestag on Sunday night, largely thanks to votes transferred by CDU supporters.

People who said they voted FDP as they emerged from the polling stations were asked which party they really favoured. No fewer than 68 per cent said CDU, compared with only 16 per cent for the FDP itself.

The FDP is now the smallest

member of the coalition - the Bavaria-based Christian Social Union (CSU) has 50 seats. Yet the irony is that it is more politically powerful, because of the paper-thin majority, than it was over the past four years.

Mr Kinkel is totally committed to the current coalition. He fought the entire election on that basis. But he knows that over the next four years he has to win a clear political profile for his own party if it is to survive the next election at all. The FDP has to take a clear, independent position on issues. The question is whether it can best do that within the ruling coalition, or outside it.

On tax reform, the FDP, the CDU and the CSU are not too far apart, although the FDP is clearly more radical in the reduction it would wish to see in company tax.

It is also more potentially radical on deregulation and privatisation. A big issue for Mr Günter Rexrodt, the economics minister, has been

the need to make the energy market more competitive, and another has been to deregulate the retail sector - both issues on which he has met solid opposition from the more conservative CDU/CSU.

But the most potentially contentious area is social spending cuts, where the FDP is also more radical than its more powerful partners.

"The dilemma of the FDP is that they will be tempted to try to get more profile by being in the forefront of moves to deregulation and to slim the welfare state," according to one top political adviser. "But they know first of all that the CDU is much more cautious. And Mr Kohl knows that these are issues on which he needs the support of the Bundestag (the second house of parliament representing the 16 federal states). The Bundestag has an SPD majority, and on such issues, he will never get that support. So he has to resist the FDP."

Social spending issues nearly brought disaster during the past four years, first over reform of the health service, and then over setting up a new insurance scheme to finance nursing care for the old and handicapped. The FDP backed down, but next time, it might decide not to.

The other key area of contention could be law and order, for the FDP still contains a strong libertarian wing, committed to generous immigration policies, good race relations, and a determined resistance to police surveillance, such as bugging telephone lines. Mr Kohl will be pushing for tougher action on law and order, to fulfil his election promises.

Only on Europe are the coalition members in broad agreement, although Mr Kohl is perhaps more passionate about the need for further European integration.

But any of these issues could be the one the FDP chooses to use to seek a new profile, if the party leadership decides that is the best strategy.

Mr Kohl, on the other hand, will bend over backwards to keep his coalition together. He knows that the alternative - a grand coalition with the SPD - was a disaster for his party before, when it paved the way for a change of power to an SPD-FDP alliance. He will thus seek to accommodate the liberals, within the limits of his need to work with the SPD majority in the Bundestag. That is where a *de facto* grand coalition already exists.

That is perhaps why the German body politic, and the financial markets, can afford to be so relaxed about such a close election result. But it still leaves the future clouded by uncertainty, and the fate of Mr Kohl in the hands of his unreliable partner, Mr Kinkel.

Antony Thorncroft argues that the Millennium Commission needs to firm up its brief

## 2000 and beyond

Members of the Millennium Commission, a handpicked band of nine of the extremely

Good and reasonably Great, are travelling the UK for ideas on how to spend an estimated £160m to celebrate the end of the second millennium.

While they search for imaginative suggestions, they must also find a new chief executive. For when the Commission moved into new offices in Westminster's Little Smith Street last weekend, it was minus a boss.

Mr Nicholas Hinton, former head of the Save the Children Fund, was due to start a £72,000-a-year job there yesterday. But last week, the Commission's chairman, Mr Stephen Dorrell, the National Heritage Secretary, told him his services would not be required.

Other commissioners were chosen for their strong regional links, or interest in areas likely to receive Millennium money. The Honourable Robin Dixon was ideal as an Olympic athlete from Northern Ireland; the Earl of Dalkeith can speak for Scotland and the heritage; and journalist Simon Jenkins is interested in architecture and has a Welsh background.

But choosing the commissioners

was the easy part. Deciding how the Millennium Fund should operate and what it should spend the money on is proving more difficult.

The only guidelines were provided in a short speech by the former Heritage Secretary Peter Brooke.

In it, he urged the commission to "seek to capture the spirit of our age in enduring landmarks that symbolise our hopes for the future". Millennium projects should be those that would probably not otherwise happen, he added. "Above all, the Millennium Commission's legacy should form a permanent enhancement of our national heritage."

Not much detail there, although Mr Brooke had his own favourite ideas. He wanted a big Millennium Festival, and was keen on bursaries. On the projects, particularly the grand works that will absorb around half the fund's expenditure, the brief was wide open.

If the commissioners want to, they can reject all the likely front runners. The new Tate Gallery of Modern Art on London's Bankside is a strong candidate - it represents

contemporary art and it is international. But it is planning to move into a converted 1940s power station rather than a brand new 21st-century structure, hardly fitting for the new Millennium, the commissioners might decide.

They can suggest to the proposed Cardiff Opera House that it goes to the Welsh Arts Council for its funding. They can point the revamped South Bank Centre towards the fifth of the lottery assigned to heritage projects. All can be criticised for not occupying new buildings, or for having possible alternative sources of lottery funding.

This should add up to plenty of work for the nine part-timers. But the Commission will also be distributing thousands of small local grants, of £10,000 upwards. And the commissioners seem unwilling to hand over responsibility for these much smaller projects to a bureaucracy.

This is perhaps understandable. The Millennium money comes from millions of ordinary citizens spread across the land, with the majority

living far from a national opera house and art galleries. The government is keen that they should benefit. But how? The commissioners' tour for grass-roots projects has had little success to date.

Most of the suggestions are outside the scope of the fund - improving the health service, or education, or transport are already the responsibility of existing government institutions. Many are worthy but banal - like giving every village a millennium clock, or (the prime minister's suggestion) giving every community hall a computer. Few seem keen on a giant ferris wheel on the banks of the Thames. The Channel Tunnel has deterred plans for great engineering ventures. Environmental ideas - inner-city parklands and a new Caledonian Forest - look likely winners.

The government complains it wants an independent body, but the commission is an obvious source for some "feel good factor" in the run up to the next election.

However, without guidelines and a bureaucracy that can take decisions, the Millennium Commission looks like becoming a huge bottleneck with plenty of money, but not enough time.

## OBSERVER



'Love and affection are for the proletariat'

reconvenes. The literary caucus is further bolstered by the presence of Gerhard Zwerger, known principally for his steamy short stories. Heinrich von Einsiedel, the great grandson of Bismarck, should be relied on to deliver a piquant historical perspective, as, in a different way, should Rudolf Kitzmayer, who admits to having been an informer for the Stasi secret police. On the distasteful side, meanwhile, the formidable Christine Schenk, an outspoken lesbian, will be rubbing shoulders with Christa Luft, the elegant Marxist economist.

The PDS's parliamentary leader Gregor Gysi promises "anything but

a boringly unified fraction". You could say that the heirs to the faceless grey communist party apparatchiks have come far.

## Case history

■ Hope that professional investors attending Singer & Friedlander's Company Investor Show on Thursday pay a bit more attention than they did last year.

The idea is to give small quoted company stocks an opportunity to tell their story to the investment community. Last year, fund managers, brokers and analysts attending were asked to pick the three stocks that would perform best over a six month period. No one came close to picking the winning portfolio - car distributor William Jax, chemical colours company European Colour or Regent Hotels - and no prize was awarded. All jolly embarrassing.

In a bid to tickle the palates of a better class of punter this time round the organisers are offering a case of White Burgundy - 1993 Meursault.

## Time, gentlemen

■ The European Monetary Institute, the precursor to the European Central Bank which has been squatting in Basle since the beginning of the year, moves to Frankfurt next month and is inviting journalists to its new

headquarters after the mid-November council meeting. But it seems to have gone native even before it has pitched its stall among the trees and shrubs of the idyllic Tautou.

Observer, having just discovered that journalists were supposed to register their interest (in writing) by October 7, won't be there.

## Quality time

■ British Rail travellers be warned: the system is running out of timetables. London's Kings Cross station, for example, no longer stocks timetables for journeys to Bournemouth or Liverpool. "We haven't had all the timetables since British Rail was split up in April," says an assistant.

Look on the bright side: if there are no timetables, at least you won't be worrying about trains running on time and all that nonsense.

## Fasten seat belts

■ Unhappy conjunctions now featuring on the Uzbekistan Airways flight from Bangkok to London via Tashkent.

The in-flight magazine - inventively titled 'Uzbekistan Airways' - carries a profile of the Uzbek national football team, all killed in an air crash some years ago, as the article explains. And the movie? *Dracula*.



## Historic treaty paves way for economic links

# Israel agrees draft deal for peace with Jordan

By Julian O'Zanne in Jerusalem

Israel and Jordan initiated a peace treaty yesterday in Amman, the Jordanian capital, paving the way to normal relations between the two countries and breaking down economic barriers in the Middle East.

Mr Yitzhak Rabin, Israeli prime minister, and King Hussein of Jordan settled disputes over their border and access to the region's water sources to achieve the draft treaty. It was initiated by Mr Rabin and Mr Abdul Salam al-Majali, the Jordanian prime minister, at Amman's royal guest palace.

Mr Rabin immediately returned to Israel and received unanimous support from his cabinet for the accord.

US president Bill Clinton might attend the signing ceremony, expected next Wednesday on the Jordan-Israel border, marking the formal end of hostility between the two countries which have fought three wars since 1948.

The treaty, Israel's first formal peace accord with an Arab neighbour since the Israeli-Egyptian

agreement of 1979, requires ratification by both parliaments. After that a timetable of normalisation will include the exchange of ambassadors and the opening of borders.

The agreement is critical for boosting economic integration and trade in the region. It will put pressure on Syria and Lebanon to intensify peace talks with Israel, and considerably enhance Mr Rabin's domestic standing. The treaty will also unlock a range of planned economic projects, including shared use of trade infrastructure, joint projects in water, energy and tourism and direct bilateral trade links.

Mr Rabin said the agreement "will set a cornerstone for a new Middle East in which peace, development and co-operation will replace animosity, hatred and war".

Details of the deal have yet to be released, but Mr Rabin said the two sides had agreed to a border based on the international boundary between Jordan and Palestine drawn by the British in 1921, with only minor changes.

Mr Rabin said neither side had lost or won, although Jordanian and Israeli officials said accepting the 1921 border meant that Israel had given up a substantial part of the 350 sq km of arid land claimed by Jordan. Israeli farmers living on part of the land would be able to stay under a leaseback deal which recognised Jordanian sovereignty.

Israeli officials said Mr Rabin and King Hussein spoke to President Clinton yesterday and urged him to attend a regional signing ceremony. Both leaders want to support Mr Clinton in maintaining his Democratic majority on Capitol Hill in the November 8 congressional elections, given his administration's huge financial and military underwriting of the Middle East peace process.

Mr Clinton said: "At a time when hatred and extremism and threatening behaviour still stalk the Middle East, this agreement reminds us that moderation and reason are prevailing."

Cornerstone for new Middle East, Page 5  
Editorial Comment, Page 17

## Brussels to deepen Italian telecoms probe

By Andrew Hill in Milan

The structure of Italy's state-controlled telecommunications sector is to come under European Commission scrutiny as part of an antitrust investigation into the proposed joint venture between Italtel, Italy's telecoms equipment manufacturer, and Siemens of Germany.

The commission yesterday announced it was deepening its investigation into the deal struck in March between Stet, the state-controlled holding company which is Italtel's parent, and Siemens. The two companies agreed to merge their equipment manufacturing interests in Italy. Stet and Siemens would each control 50 per cent of the new company, which would have a turnover of about L3,400bn (£2.16bn) in 1994.

The Brussels inquiry, which follows a preliminary one-month examination of the case, could last up to four months. That means it is likely to overlap with the build-up to privatisation of the Italian state's 85 per cent holding in Stet, expected to take place in the middle of 1995.

The commission said it was concerned about the impact of the Italtel-Siemens deal on the Italian market for the supply of telecoms switching and exchange equipment in the state sector.

It said the joint venture would command around half the Italian market for public switching and transmission equipment. But the commission is also worried about vertical links between Italtel/Siemens and Telecom Italia, Italy's main domestic telephone company. Telecom Italia, which is Italtel's principal client, is also a subsidiary of Stet. "One of our concerns is that one of the main EU companies, Siemens, will have the same status [within Stet] as Italtel, which has a very important relationship with Telecom Italia," said the commission yesterday.

The announcement of an in-depth inquiry was not unexpected, given that Italtel already had nearly 50 per cent of the Italian equipment market before the merger. But it is the second antitrust setback this month for Stet and Telecom Italia, which are under pressure to end their monopoly over parts of the Italian telecoms sector.

Last week, a Milan appeal court ruled that Telecom Italia would have to provide leased lines for Telsystem - an Italian telecoms services company that wants to provide telecoms services for businesses in Italy - pending a ruling by Italy's antitrust authority.

The commission will also consider if the proposed joint venture will hinder implementation of public procurement rules and opening up of national markets to EU competition.

## THE LEX COLUMN

# Eurotunnel's cash crunch

Eurotunnel and its advisers, S.G. Warburg, should be suitably red-faced for underestimating its revenue projections by so much so quickly. Long-suffering shareholders who subscribed to May's rights issue at 285p yesterday watched their sterling units drop to just 221p - their lowest point since 1983.

The group's deteriorating cash position is the immediate concern. It means Eurotunnel is unlikely to meet the conditions necessary to access its senior debt next spring. This need not involve yet another rights issue because the breach is likely to involve tens rather than hundreds of millions of pounds. But it adds aggravation at a time when the management should be concentrating on next summer's peak season.

Each time important milestones have been reached - when the boring was completed, when the tunnel was commissioned, when the Queen and President Mitterrand opened it - doubts have emerged. Concerns over whether the group can generate enough revenue to cope with its interest burden should be dispelled or confirmed next summer when the system is supposed to run at full capacity. Three things will be needed if it is to succeed. Eurotunnel has to ensure service quality, running fast, reliable and frequent trains; British Rail and SNCF have to generate volumes on the city to city routes; and Eurotunnel must avoid a price war with Stena and P&O.

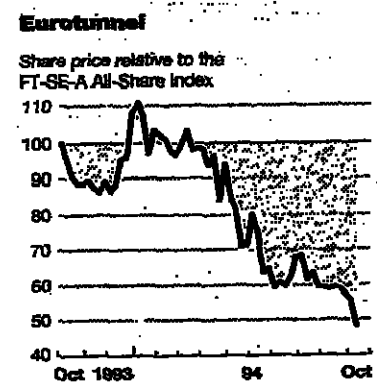
The auguries are not good. The margin for error is tight and Eurotunnel's historic inability to predict even the nearest of futures does not instill confidence. The tunnel will undoubtedly be a money-spinner at some point. But whether under this management and for this generation of shareholders remains doubtful.

## Renaud

The French government's refusal to privatise Renault fully is a recipe for uncommercial meddling in the company's affairs. It reflects political sensitivities over the French car manufacturer and suggests that Renault may be managed counter to the interests of investors.

But this will not stop the forthcoming Renault issue from being a roaring success. It was always likely that the issue would be priced generously, if only to avoid the embarrassment of a flop ahead of next spring's presidential elections. So it has proved. The pricing parameters announced yesterday are

FT-SE Index: 3120.2 (+13.5)



Source: FT Graphs

below analysts' expectations, valuing the group at FF435bn-FF445bn rather than the forecast FF445bn. Assuming the price is fixed at the upper end of the range, the shares will be on a multiple of some 3.5 times expected earnings for next year. This is a discount of at least 20 per cent to Peugeot. It also compares favourably with the ratings of other European car manufacturers which have not coped with recession so successfully.

The issue's likely success will be accentuated by the relatively small volume of shares allocated to institutions: 40 per cent of the total, with even that subject to a clawback from private investors. There will be a lot less demand for AGF, Bull and other French companies in the running to be privatised. But that is little consolation for institutions left scrambling for shares in Renault.

## Retail sales

The Confederation of British Industry's September retail sales figures, showing a sharp rise in the balance of shops reporting higher volumes, do little to unscramble the confused signals coming from the British high street.

Although the fall in the official figures for August was widely seen as an aberration, the City was expecting a pretty flat September picture from the CBI. In recent months the CBI survey has tended to give a gloomier view than the official numbers, which are being treated with increasing caution. But those observers who justified their pessimism by arguing that the CBI is more accurate will find today's figures tricky to explain.

The CBI believes that the weak sur-

veys in July and August were partly due to retailers misreading the price/volume mix of their sales growth. When inflation was high, retailers tended to overestimate volume growth and the CBI figures were generally better than the official numbers. During the period of heavy discounting in the summer, the illusion worked the other way. With the summer sales largely over, the September figure for volume growth looks all the more impressive. Yet even those who place most faith in the CBI figures will not get carried away. The series has been very volatile and the average for the three months to September was unchanged from August. Nor, given their recent poor forecasting record, will retailers' optimism about October be given much weight. But, if tomorrow's official figures are also better than expected, the City might start believing the leading chains' predictions of a bright Christmas.

## PaineWebber/Kidder

Non-financial groups do not make good parents for investment banks. General Electric has had to admit as much by selling most of Kidder Peabody to PaineWebber for \$870m. The reason is that investment banks are unruly and sensitive children. Too firm a hand and the most talented brokers, traders and bankers will move to rival organisations. Too lax an approach and trading operations can easily run up large losses. GE now stands condemned of the latter failing.

But it is also true that, in the past, Kidder's ability to recruit suffered from the perception that GE was excessively interventionist. Yesterday's sale is the third recent retreat by non-financial groups from US investment banking. This year American Express cut its connection with Shearson Lehman, while last year Sears Roebuck spun off Dean Witter.

Though PaineWebber should be a better parent for Kidder than GE, the acquisition will not catapult it into the investment banking big league. Neither PaineWebber nor Kidder is large in advisory work or underwriting. Where the combined group will be a significant force is in US retail broking, though it will still be a long way behind Merrill Lynch and Smith Barney. Even so, PaineWebber will have its work cut out to make a success of the deal. Blending the cultures of the two groups will not be easy and rivals will be circling to see if they can poach Kidder's best staff.

## India scraps bank lending controls to boost borrowing

By Stefan Wagstyl in New Delhi and R C Murthy in Bombay

India scrapped most controls on bank lending rates yesterday to promote cheaper credit for blue-chip borrowers and stimulate competition in the banking industry.

The changes, announced by the Reserve Bank of India, will help the government rebut criticism from the International Monetary Fund and other observers that India has been delaying economic reforms started three years ago by Prime Minister P.V. Narasimha Rao.

Mr C. Rangarajan, reserve bank governor, said the new policy marked a continuation of financial sector reforms. While controlling inflation remained important, the central bank would tolerate a faster rate of money supply growth than before: 16 per cent for the year to the end of March 1995, against

an original target of 14-15 per cent.

The central bank also raised from Rs2bn to Rs5bn the ceiling for loans from all Indian banks to a single large project. The measure will help companies raise credit for power stations and similar schemes.

Industry welcomed the prospect of lower interest rates. Mr Subodh Bhargava, president of the Confederation of Indian Industry, the employers' organisation, said: "The new policy includes initiatives industry has been seeking for some time."

The latest reforms were contained in the central bank's announcement of its credit policy for the six months to the end of March.

The minimum lending rate, controlled by the reserve bank since bank nationalisation in 1969, is to be deregulated for loans of about Rs200,000 (£4,123),

which covers the great majority of all bank lending. Controls will remain in place for smaller loans. Bankers were divided over the extent of likely declines in lending rates from the present 14 per cent.

Some forecast falls up to 2 percentage points; others predicted a decrease of 0.5 percentage points. The biggest benefits are expected to go to big blue-chip borrowers able to negotiate good terms. An important constraint on reducing lending rates will be that deposit rates will remain fixed, though the key savings rate will fall from November 1 by 0.5 of a percentage point to 4.5 per cent.

The big state-controlled banks are under pressure by the government to improve their profitability. But competition from privately-owned banks will tend to encourage lending rate cuts.

## Kohl in talks to reform German coalition

Continued from Page 1

east German communist party.

The size of the government majority was bolstered at the last minute by the allocation of 16 so-called "residual seats" to the parliament, resulting from Germany's two-vote proportional representation. Two of the seats went to the CDU, and four to the opposition SPD, giving the

latter a total of 252 seats.

Mr Klaus Kinkel, the foreign minister and leader of the FDP, said that coalition negotiations would begin next week.

His own party emerged from the election with 32 seats fewer than in the previous parliament, after its vote sank from 11 per cent to 6.9 per cent. This means the FDP will almost certainly lose at least one of its ministries.

The other major changes are the return of the Greens to the Bundestag, with 49 seats, and the election of 30 members of the PDS, in spite of the fact that the former communists did not win the minimum 5 per cent of the national vote. Instead, they gained four seats in the first direct vote, all in east Berlin, giving them the right to proportional representation.

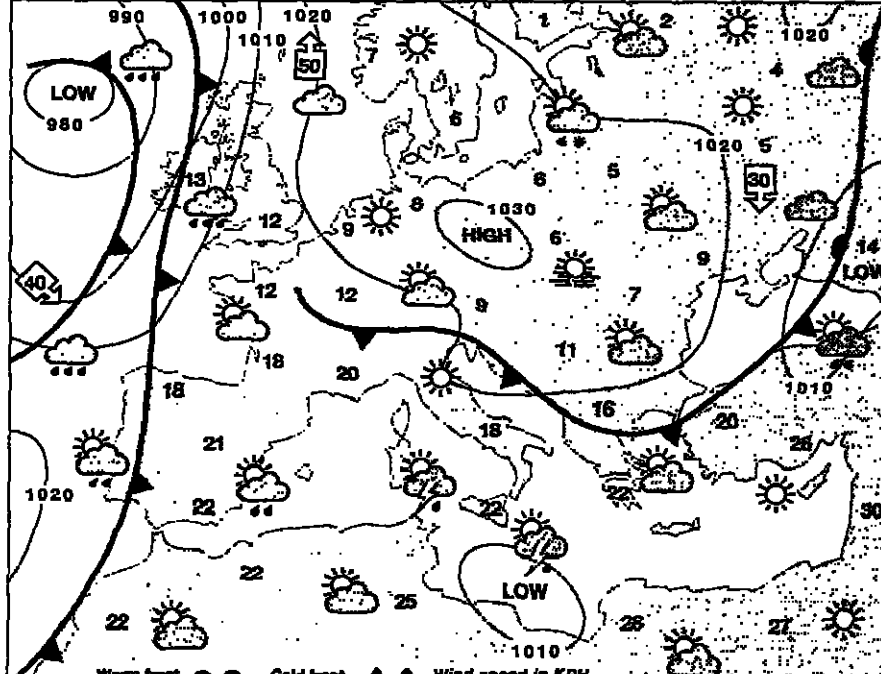
## FT WEATHER GUIDE

### Europe today

A strong high pressure system over Germany will give settled conditions over much of Europe. Along the northern side of the high, a north-westerly flow will direct quite cold air into Scandinavia. The north-west coast of Norway and the west coast of Finland will see a few wintry showers moving inland. Central and eastern Europe will have sunny spells and will remain dry. Ireland and western Scotland will have rain as active low pressure systems move in from the Atlantic. Other parts of the British Isles will stay dry. The Mediterranean will be rather unsettled with plenty of thunder showers over southern areas.

### Five-day forecast

Central and eastern Europe will stay settled and dry as strong high pressure slowly moves into north-west Russia and extends into Scandinavia. Over the eastern Atlantic, low pressure systems will become very active and should produce quite a lot of rain and wind over the British Isles. The Mediterranean will remain unsettled with heavy rain and thunder storms at times. The Alps and south-east Europe will have plenty of rain towards the weekend.



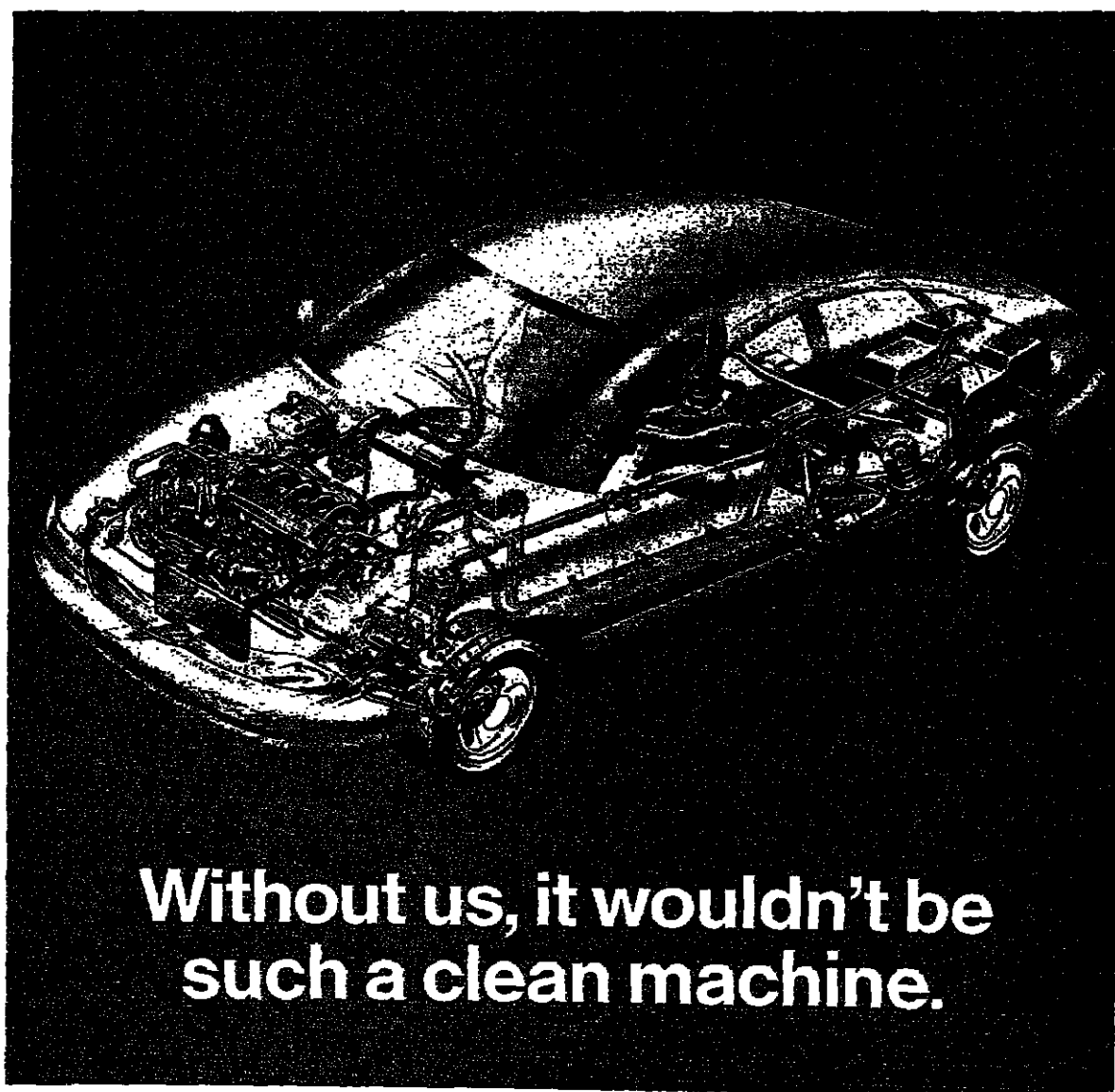
Situation at 12 GMT. Temperatures maximum for day. Forecasts by Meteo Consult of the Netherlands

### TODAY'S TEMPERATURES

Maximum	Minimum	City	Forecast	Temperature
Abu Dhabi	35	Beijing	fair	18
Accra	31	Belfast	windy	12
Algiers	22	Berlin	fair	10
Amsterdam	10	Bombay	fair	27
Athens	22	Buenos Aires	fair	18
Bahia	24	Calcutta	fair	28
Bangkok	24	Chennai	fair	28
Barcelona	19	Cairo	fair	20
		Cape Town	cloudy	19
		Cardiff	cloudy	12
		Casablanca	showers	22
		Chicago	cloudy	11
		Cologne	fair	11
		Dallas	fair	27
		Dubai	fair	28
		Durham	fair	11
		Edinburgh	fair	11
		Faro	fair	21
		Frankfurt	sun	11
		Geneva	sun	15
		Glasgow	cloudy	12
		Hamburg	sun	12
		Helsinki	cloudy	17
		Hong Kong	showers	29
		Honolulu	fair	31
		Istanbul	cloudy	17
		Jakarta	fair	32
		Jersey	fair	18
		Karachi	sun	35
		Kuwait	fair	36
		L. Angeles	sun	25
		Las Palmas	sun	26
		London	cloudy	22
		Los Angeles	sun	22
		Madrid	sun	23
		Moscow	fair	18
		Munich	fair	18
		Nairobi	sun	35
		Naples	sun	22
		Nassau	fair	30
		New York	fair	19
		Nice	sun	22
		Nicosia	showers	25
		Osaka	sun	22
		Paris	fair	12
		Perth	sun	27
		Pingue	sun	5
		Rangoon	fair	31
		Reykjavik	rain	8
		Rio	cloudy	25
		Rome	sun	22
		S. Francisco	sun	20
		Seoul	fair	19
		Singapore	thund	32
		Stockholm	sun	5
		Swatow	sun	12
		Sydney	showers	22
		Taipei	thund	27
		Tokyo	cloudy	22
		Toronto	cloudy	18
		Vancouver	fair	13
		Venice	fair	17
		Vienna	sun	7
		Warsaw	fair	5
		Washington	fair	21
		Wellington	drizzle	11
		Winnipeg	rain	11
		Zurich	sun	11

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# AT&T acquires A phone group for \$



## INTERNATIONAL COMPANIES AND FINANCE

## MCA managers to discuss buy-out at Matsushita talks

By Alice Rawsthorn  
in London and Michio  
Nakamoto in Tokyo

Mr Lew Wasserman, veteran chairman of MCA, the Los Angeles-based entertainment group, and Mr Sidney Sheinberg, its president, are expected at a meeting today to raise the subject of taking control of MCA by buying a majority stake from Matsushita, its Japanese parent.

Top managers from MCA are due to meet in Hawaii with representatives of Matsushita, the Japanese electronics company that acquired MCA four years ago.

Matsushita yesterday denied it would consider ceding control of MCA, which owns Geffen Records and Columbia Pictures, the studio behind a string of recent recent box office hits, including *The Firm* and *Jurassic Park*.

Mr Yoichi Morishita, president of Matsushita, said his group had not received notification of a bid for MCA. However, he admitted to a Japanese newspaper that there had been differences between MCA and Matsushita over the former's investment plans.

The MCA management has

made no secret of its frustration with Matsushita's apparent reluctance to allow the company to participate in the acquisitions and joint ventures sweeping across the entertainment industry.

Since buying MCA for \$8.1bn in 1990, Matsushita is reported to have blocked several proposed investments, including a plan to buy a stake in the NBC television network and an earlier bid to take control of Virgin Records.

Faced with the aggressive expansion of rivals, such as Time Warner and Viacom, Mr Wasserman and Mr Sheinberg are said to have become anxious to free MCA from Matsushita's control. The two, both of whom made substantial sums from the Matsushita acquisition, are believed to have discussed the possibility of a buy-back with external investors.

They are also understood to have had discussions with the three Hollywood heavyweights - Mr David Geffen, the music magnate, Mr Steven Spielberg, the Oscar-winning film director, and Mr Jeffrey Katzenberg, former head of Walt Disney's movie studios - who last week announced plans to launch a new entertainment group.

## Scott jumps by 75% as restructure continues

By Laurie Morse in Chicago

Scott Paper, the international tissue paper manufacturer that has been undergoing a big restructuring, yesterday reported a near 75 per cent jump in third-quarter net income to \$60.8m, or 80 cents a share. This compares with \$35.1m, or 46 cents, in the comparable quarter last year.

Scott last week announced the sale of its S.D. Warren printing paper subsidiary to the South African company Sappi. The deal was part of its strategy to focus on tissue-based consumer products.

The profits advance was made in spite of flat sales, at \$1.1bn.

Mr Albert Dunlap, the new chairman brought in to oversee Scott's restructuring, said: "Our third-quarter results represent the best quarterly performance in four years."

During the third quarter, S.D. Warren's sales increased modestly to \$294.7m, from last year's \$290.8m, while its operating income rose to \$26.3m, from \$23m.

For the first nine months, Scott recorded income of \$128.0m, or \$1.68, against last year's \$92.3m, or \$1.25.

## New York puts new light on nationalisation

Richard Tomkins examines the arguments for the state's planned \$2.5bn takeover of Lilco

America, the land of free enterprise, is surely the last place anyone would expect to find the public sector proposing to nationalise a stock-market quoted company.

That, however, is precisely what the State of New York intends to do with its planned \$2.5bn acquisition of the Long Island Lighting Company, a private sector electricity company known to its customers as Lilco.

Thumbing its nose at the world-wide trend towards privatisation, New York state has asked the company to enter immediate negotiations on its proposed cash offer of \$21.50 a share.

Lilco's board says it is "seriously evaluating" the offer but it seems quite possible the company and its shareholders will accept.

Why do it? Lilco, which generates and distributes power in the counties of Nassau, Suffolk and a portion of Queens, is not in imminent danger of collapse. But it is extremely unpopular with its customers because it charges the highest electricity prices in the US - 18.1 cents per kWh for residential customers, almost double the national average of 8.7 cents.

Mr Mario Cuomo, the Democratic governor of New York

state, says that taking Lilco into public ownership would cut electricity bills by an immediate 10 per cent because the company would no longer have to pay tax or shareholders' dividends.

The result would be a lot of happy voters when Mr Cuomo is fighting a tough re-election battle.

Mr James McFadden, a utilities analyst at Bear Stearns, the Wall Street securities house, believes the financial case stacks up. The arithmetic goes like this:

At present, US electricity companies need to deliver an annual rate of return of 11 per cent on equity to attract investors. For Lilco, the cost in shareholder dividends works at about \$250m after tax. That means it has to earn \$400m before tax to deliver a satisfactory rate of remuneration.

Now contrast the case if the company were taken into public ownership. The takeover would be financed through a \$2.5bn issue of tax-exempt revenue bonds. Holders of these would require an interest rate only 7 per cent because they would not have to pay tax on the income, so the after-tax cost of servicing the debt would be only \$175m. And because a government-owned Lilco would



Mario Cuomo: fighting a tough re-election battle

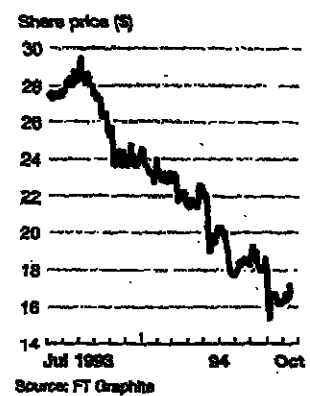
not be liable for taxation, the figure would be \$175m before tax, too.

The saving to Lilco would therefore be the difference between \$400m and \$175m: that is, \$225m. Based on Lilco's present annual revenues of \$2.35bn, that would allow for an immediate cut in electricity prices of just under 10 per cent.

The logic is seductive. But if valid, could not the same case be made for nationalising every other private sector utility in the US?

Mr Irwin Stelzer, director of regulatory policy studies at the American Enterprise Institute, a free-market think-tank,

## Long Island Lighting



"The solution to high-cost power is competition, not state monopolies," Mr Stelzer says.

In fact, some of Lilco's most pressing problems relate to the threat of competition.

Between 1973 and 1984, the company spent \$3.5bn on constructing a nuclear power station which was never used. Now it has to charge high prices to service the debt it incurred - but it can only do so because it enjoys a monopoly.

That could change. The regulatory environment for electricity companies is shifting, and Lilco is under increasing pressure to let its customers shop around for power.

Once that starts to happen, Lilco will need to charge even higher prices to maintain revenues from a smaller customer base, leading to a spiral of decline.

Such fears have done little for Lilco's share price: it has generally been heading downwards for more than a year. From that point of view, a takeover by New York state might come as a relief.

But the market yesterday looked reluctant to gamble that Mr Cuomo would be re-elected to pursue it. Lilco's shares were off 3% at \$17.4, well below the \$21.50 offer price.

## Two US commercial banks sharply ahead

By Richard Waters  
in New York

The pick-up in consumer lending in the US this year was the main factor behind double-digit earnings growth at two large US commercial banks which reported third-quarter earnings yesterday.

NationsBank, the third biggest bank with assets of \$187bn, said its consumer loans were up 18 per cent on a year ago, while commercial loans were 10 per cent higher, excluding the effect of acquisitions.

KeyCorp, the Cleveland-based group with assets of \$65bn, reported loans up 13 per cent on a year before.

The growth in loans came against the background of narrower lending margins.

At NationsBank, which maintains large dealing positions, the net interest margin slipped from 3.83 per cent to

3.54 per cent, and at KeyCorp from 5.3 per cent to 4.69 per cent.

NationsBank reported after-tax profits of \$431m, up 26 per cent from a year before due partly to acquisitions made since then. Earnings per share rose 17 per cent, to \$1.55, in line with market expectations.

KeyCorp's net income also matched most analysts' projections, with a 14 per cent year-on-year rise, to \$229m. Earnings per share rose 12 per cent, to 92 cents.

However, First Chicago, with assets of \$68bn at the end of September, reported a 46 per cent fall in net income from a record level in the third quarter of 1993. In the previous period, earnings benefited from the sale of equity investments, which contributed \$1.40 a share. The bank reported net income of \$154m, or \$1.54 a share.

## IBM simplifies range of PC product lines

By Louise Kehoe  
in San Francisco

International Business Machines has simplified its personal computer product lines, reducing them from nine ranges to four in an attempt to cut costs and reduce confusion among buyers.

The new "branding strategy" is the latest move by IBM to try to regain momentum in the fiercely competitive PC market. It has fallen from first place in the US PC market in 1993 to fourth place behind Compaq Computer, Apple and Packard Bell in the first half of this year.

The company also launched several new desktop and notebook models and cut prices on others.

"The PC industry has done a brilliant job of innovation and technology," said Mr G. Richard Thoman, IBM senior vice-president and group executive, who took charge of IBM's PC operations in January.

"But in the process, we have lost touch with the majority of customers who are all dazed and confused by the complexity in the technology, the array of choices, and the level of support."

The new IBM brand names are IBM PC, IBM PC Server, ThinkPad (for notebook computers) and Aptiva (for consumer products).

The consolidation does away

with lines including the PS/1, PS/2 and Value Point, and reduces the number of designs IBM will manufacture. The new approach marks the return of the "IBM PC" brand that for a decade was the hallmark of PC industry standards.

IBM will back its new branding strategy with an aggressive television and print advertising campaign, Mr Thoman said. Streamlining the product lines is part of a broad restructuring effort, he added. Over the past 10 months he has consolidated IBM PC operations and sharply cut its workforce.

The changes have been "difficult, but necessary," said Mr Thoman. "We are now in a position to respond better and faster to the customer and become the long-term leader in the PC industry."

The company also introduced new products under these brands, including a family of commercial desktops - the IBM PC 700 and IBM PC 300 Series.

A software suite called IBM PC EasyTools, including applications and programs that help to set up a new computer, will be loaded on the entire IBM PC series.

Also introduced were a new PC Server and new multimedia notebook computers.

Prices were cut by up to 17 per cent on some existing ThinkPad and PS/2 models.

## AT&amp;T acquires Alaska phone group for \$365m

Pacific Telecom, an 87 per cent owned unit of PacificCorp, is selling its Alaskan long distance phone company to AT&T for \$365m, Reuters reports.

Alascom provides Alaska with interstate and intrastate long-distance, private line and other communications services.

Pacific Telecom is to use the proceeds to fund its local telephone exchange acquisition programme, including purchases of lines from US West in Colorado and Oregon for \$890m.

In 1993 Alascom contributed

\$338m in operating revenue and \$52m in operating income to Pacific Telecom's consolidated operations. For the first half of 1994 the figures were \$160m and \$31m respectively.

"The decision to sell Alascom was based in part on the expectation that operating revenues and operating income would decline as the result of implementing a final Federal Communications Commission order relating to the restructuring of the Alaska long distance market," said Mr Fred Buckman, chief executive of PacificCorp.

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Land Baden-Württemberg

DM 500,000,000  
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Unibanco - União de Bancos Brasileiros S. A.  
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ASFINAG

Autobahnen- und Schnellstraßen-Finanzierungs-Aktiengesellschaft  
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Floating Rate Notes of 1994/1999  
and  
2,000,000 Floor Certificates

Kingdom of Sweden

DM 200,000,000  
Fixed Rate/Coloured Floating Rate Notes of 1994/2000

NATIONAL BANK OF HUNGARY

DM 1,000,000,000  
8 % Bearer Bonds of 1994/2004

IKB Deutsche Industriebank AG

DM 500,000,000  
Floating Rate Notes of 1994/1999

The Council of Europe Resettlement Fund

for War-Torn Refugees and Displaced Persons in Europe  
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Option-Strangle-Notes of 1994/1996

KAUFHOF

Kaufhof Finance B.V.  
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## INTERNATIONAL CAPITAL MARKETS

## Treasuries ease as weak dollar unnerves investors

By Patrick Harverson  
in New York and Conner  
Middelman in London

US Treasury prices eased slightly at both ends of the maturity range yesterday morning as renewed dollar weakness and a rise in commodity prices unnerved bond market investors.

## GOVERNMENT BONDS

By midday, the benchmark 30-year government bond was down 1/8 at 98 1/2, to yield 7.845 per cent. The two-year note was also weaker, down 1/8 at 99 1/2, yielding 5.667 per cent.

Prices edged lower from the start, due primarily to a slide in the dollar's value on foreign exchange markets overnight. Investors are worried that further declines in the dollar might push the Federal

Reserve into raising interest rates sooner rather than later.

Although the Fed generally does not change monetary policy because of currency concerns, it is ready to raise rates if the economy continues to grow slowly. Some analysts believe fresh weakness in the dollar could trigger an early move by Fed policy makers.

The market was put under additional pressure by a firming in commodity prices - including gold, platinum, silver and crude oil - and by news of a strong business inventories reading for August. According to data released yesterday, business inventories rose 1 per cent in August, a much larger increase than forecast and an indicator that third-quarter economic growth may come in stronger than anticipated.

German Chancellor Helmut Kohl's narrow election victory gave bonds a boost which rip-

pled across European government bond markets.

The Nordic markets derived additional support from the Finnish referendum on European Union membership, which resulted in a vote of 57 per cent in favour of joining.

German government bonds recouped an early drop to end a busy day more than 1/2 point higher.

Although bonds had already risen sharply last week in anticipation of a Kohl victory, the rally continued yesterday as capital flows into the market increased, observers said.

"Although a lot of people were calling for a Kohl victory, few of them were willing to bet their money on it before the election - the opinion polls were so close until the very end," said Mr Julian Callow, European economist at Kleinwort Benson.

"But once people knew the outcome, there was an immedi-

ate flow of funds into German assets, especially bonds." Traders reported buying of bonds not only by European fund managers, but also from east Asian and US investors. This was also reflected in the D-Mark, which rose sharply against most other currencies.

Bonds largely ignored weakness in the US Treasury market, which caused the yield spread between the two markets to widen. Mr Callow expects this divergence to continue in the near term as bonds strengthen further.

However, he warned that as bond yields approached 7 per cent, that spread would look "very stretched".

At yesterday's European close, US Treasury notes yielded some 48 basis points more than bonds.

The election hurdle having been overcome, the focus is now back on the Bundesbank as market participants await

September M3 money supply data and October inflation numbers.

French bonds underperformed their German counterparts, causing the 10-year yield spread over bonds to widen to 69 basis points, from 63 on Friday.

The market was depressed by the French franc's weakness against the D-Mark and the shift of the political focus from Germany to France ahead of next year's presidential elections. Political jitters have been exacerbated by recent corruption scandals surrounding members of the government. The OAT futures contract on Matif rose by 0.08 point to 111.90.

UK gilts tracked bonds higher and underperformed them only slightly, with the 10-year yield spread widening by two basis points to 132. The

December long gilt future rose by 1/8 to 102 1/2. In the absence of significant domestic data, gilts are expected to take their cues from international markets until Friday's release of third-quarter GDP figures.

The Nordic markets posted solid gains, boosted both by firm markets elsewhere and Finland's 57 per cent vote in favour of EU membership.

Mr Paul Donovan, bond analyst at UBS, said: "The prospect of a positive vote in the Swedish referendum on November 13 has increased, if Sweden agrees to EU membership, there are realistic prospects for a 'yes' in Norway's referendum on November 23."

EU membership for Sweden would provide prospects for fiscal austerity as the government aimed to meet the Maastricht criteria, and support for the krona, he said.

## Indosat ADSs set for launch in New York

By Richard Lapper

Trading is set to begin today in New York in the American Depositary Shares (ADSs) issued by Indosat, Indonesia's international telecommunications company, marking the launch of one of Asia's biggest international equity issues.

The Indonesian government - which will reduce its stake by some 25 per cent - has raised \$721.13m through an issue of 22.5m ADSs and has an option to sell a further 3.4m. It is expected to raise a further \$300m through an issue of new shares to local investors.

Overall, the scale of the deal looks likely to surpass other large Asian issues such as Pakistan Telecommunications (\$517.4m) and Morgan Stanley Asia Pacific (\$802.5m), according to figures produced by IFR Securities in London.

The ADSs (each representing 10 shares) were priced yesterday at \$32.05 each. Roughly half have been directed to US investors. The new Indosat shares will be listed on the Jakarta and Surabaya bourses later this week.

Merrill Lynch and the local brokerage house Danareksa Securities are joint global coordinators of the issue. Co-managers of the deal in the US are J.P. Morgan, Salomon Brothers, Lehman Brothers, Goldman Sachs, Morgan Stanley and Smith Barney.

Reportedly oversubscribed in both New York and Jakarta, it should raise the international image of the local market and boost the government's stalled plans to privatise a batch of state companies. The possible privatisation of more than 200 state firms, many of them poorly-managed and ineffi-

cient, has been mooted for some time. Garuda Indonesia, the airline, PT Telkom, the domestic telecommunications firm, and PLN, an electricity company, are the favourites to follow Indosat.

The issue also confirms a trend for companies in emerging markets to raise capital through issues of either ADSs, American Depositary Receipts, or Global Depositary Receipts, which represent underlying shares. Earlier this month, a Citicorp study showed that issuers from the emerging markets accounted for 61 per cent of ADR programmes launched in the first nine months of the year, compared with only 11 per cent in all of 1990.

The total number of ADR shares traded on the US stock exchanges hit an all-time high of 5.2bn in the period, a 21 per cent increase on the ADRs traded in 1993, a rise of 32 per cent.

A total of 184 companies from 40 countries launched new ADR or GDR programmes, up from 96 companies in the comparable months of 1993. Depository receipts were also used in 17 privatisations.

Indian companies were the most active in the ADR market, with 29 issuing new depository receipt programmes in the period, followed by Hong Kong with 17 companies, Brazil and Mexico with 16, and South Africa with 10.

India's Shriram Industrial Enterprises raised \$40m through an issue of GDRs on Friday. Also last week, Banco Canadeno, one of Colombia's largest commercial banks, confirmed that it, too, intended to issue ADRs in New York.

## World Bank follows EIB with three-year lira offering

By Graham Bowley

The World Bank made its debut in the three-year area of the euro area yesterday with a \$400bn offering that was targeted mainly at Italian retail investors.

Elsewhere, the Canadian dollar sector witnessed further

## INTERNATIONAL BONDS

issuance, continuing a trend begun last week. Borrowers also launched offerings into a rising D-Mark sector, boosted by the German general election result.

The success of last month's three-year \$400bn deal from the European Investment Bank persuaded the World Bank to tap the short end of the lira sector, joint lead manager IMI

said. The World Bank usually prefers to borrow funds of a maturity of at least five years, an IMI official said.

"This deal recognises that current demand is at the very short maturities in most currency sectors," the official said. "There is a particular shortage of supranational paper."

The bonds, launched with a coupon of 10 per cent, represent the World Bank's first lira offering since a reverse floating-rate note launched in May, IMI said.

France Télécom made its debut in the Canadian dollar sector with a \$312bn offering of three-year bonds priced to yield 12 basis points over Canadian government bonds.

Lead manager Paribas said the bonds were targeted mainly at retail investors in Switzerland and the Benelux countries.

Syndicate managers said the bonds were fairly priced. However, some dealers said that the Canadian dollar sector was now becoming congested. The launch follows similar deals last week by the European Investment Bank and Rabobank.

"The EIB deal was a success, largely because there had been very little issuance in Canadian dollars for some time," said one syndicate manager. "Then there was Rabobank, and now this deal may just have overdone things."

Also in the Canadian dollar sector, Banque Nationale de Paris launched a \$750bn offering of six-year bonds, lead manager Hambros Bank.

Syndicate managers said that the bonds, priced to yield 32 basis points over Canadian government bonds, represented very tight pricing for the

NEW INTERNATIONAL BOND ISSUES									
Borrower	Amount	Coupon	Price	Maturity	Yield	Spread	Book runner		
Banque Paribas	750	7.50	98.50	Oct 2004	0.255%	+255bp (94-04)	Goldman/Morgan Stanley		
Deutsche Bank	400	6.625	101.070	Nov 1997	1.25	-	Deutsche Bank		
GTZ Bank	150	(8)	100.10	Nov 1999	0.20	-	Trinkaus & Burkhart		
INTERNATIONAL LIRE									
World Bank	300bn	10.625	101.135	Nov 1997	1.25	-	Deutsche Bank/IMI Bank Lux.		
CANADIAN DOLLARS									
France Telecom	125	8.25	100.055	Dec 1997	0.1875%	+187bp	Paribas Capital Markets		
BNP Paribas	75	8.00	98.75	Dec 2000	0.275%	+275bp	Hambros Bank		

First terms and non-callable unless stated. The yield spread (over relevant government bond) at launch is supplied by the lead manager. \*Floating rate note. †Fixed rate offer price; fees are shown at the re-offer level. ‡ Short 1st coupon. § 6-month LIBOR +300bp, max 10%. ¶ Over interpolated yield.

six-year area of the yield curve. In the D-Mark sector, the state of Baden-Württemberg launched a \$1.5bn offering of 10-year bonds priced to yield 25 basis points over German government bonds.

Although there was some interest in the paper from German institutions, most of

the bonds were placed with institutions in the Netherlands, the UK, France and east Asia, excluding Japan, joint lead manager Goldman Sachs said.

It said many investors were switching out of German government bonds to buy the new issue.

"With state bond issuance falling following privatisation (of state companies), there is clearly room for an alternative to government bonds, and the states are prime candidates with their high implied credit rating and regular funding needs," said a syndicate official.

## WORLD BOND PRICES

## BENCHMARK GOVERNMENT BONDS

	Coupon	Rate	Price	Yield	Week ago	Month ago
Australia	9.000	09/04	93.200	+0.590	10.10	10.10
Belgium	7.250	04/04	93.500	+0.430	8.24	8.64
Canada	6.500	04/04	93.500	+0.250	9.04	8.86
Denmark	7.000	02/04	93.000	+0.700	9.00	9.18
France	8.000	05/09	101.800	+0.100	7.48	7.58
Germany	5.500	04/04	93.500	+0.130	8.13	8.13
Italy	7.500	08/04	91.700	+0.150	7.34	7.65
Japan	4.000	09/04	101.100	+0.110	11.81	11.83
Netherlands	4.100	12/03	98.150	+0.130	4.70	4.59
Spain	5.750	01/04	98.900	+0.540	7.26	7.51
Sweden	8.000	01/04	93.000	+0.140	10.59	11.35
UK Gilt	6.000	09/09	90.20	+1.302	8.32	8.53
US Treasury	6.750	11/04	98.13	+1.032	8.47	8.86
US Treasury	6.000	10/04	97.15	+1.032	7.82	7.89
US Treasury	7.500	11/04	95.31	+0.932	7.85	7.90
US Treasury	6.000	04/04	94.500	+0.320	8.41	8.86

London closing. US, New York mid-day. 7 Gross including withholding tax at 12.5 per cent payable by nonresident. Prices US, UK in 32nds, others in decimals. Source: BIS International

## US INTEREST RATES

BOND FUTURES AND OPTIONS					
	Rate	Yield	Week ago	Month ago	
Prime rate	7 1/4	One month	4.54	Two year	6.58
90-day T-bill	5 1/4	Three month	5.01	Five year	7.28
1-year T-bill	5 1/4	Six month	5.01	10-year	7.63
2-year T-bill	5 1/4	One year	5.01	30-year	7.85

## BOND FUTURES AND OPTIONS

## France

## NATIONAL FRENCH BOND FUTURES (MATF)

	Open	Settle	Change	High	Low	Est. vol.	Open Int.
Dec	111.64	111.90	+0.06	112.10	111.38	155,588	134,240
Mar	110.80	111.14	+0.06	111.20	110.68	1,418	8,779
Jun	110.10	110.38	+0.08	110.10	110.10	2	861

## LONG TERM FRENCH BOND FUTURES (MATF)

	Open	Settle	Change	High	Low	Est. vol.	Open Int.
Dec	111.64	111.90	+0.06	112.10	111.38	155,588	134,240
Mar	110.80	111.14	+0.06	111.20	110.68	1,418	8,779
Jun	110.10	110.38	+0.08	110.10	110.10	2	861

## Germany

## NATIONAL GERMAN BOND FUTURES (LIEFF) DME500,000 100ths of 100%

	Open	Settle	Change	High	Low	Est. vol.	Open Int.
Dec	90.22	91.04	+0.82	91.17	89.97	244,862	156,725
Mar	89.25	90.24	+0.99	90.23	88.25	401	4127

## BUND FUTURES OPTIONS (LIEFF) DME500,000 points of 100%

	Open	Settle	Change	High	Low	Est. vol.	Open Int.
Dec	90.22	91.04	+0.82	91.17	89.97	244,862	156,725
Mar	89.25	90.24	+0.99	90.23	88.25	401	4127

## UK GILTS PRICES

Strike	CALLS				PUTS			
Price	Nov	Dec	Jan	Mar	Nov	Dec	Jan	Mar







BaE shares rise 28p on market speculation about bid from GEC

## VSEL advances to £30.2m

By Bernard Grey

VSEL, the Barrow-based submarine maker and target of an agreed bid from British Aerospace, yesterday announced a 5 per cent rise in pre-tax profits from £28.8m to £30.2m for the six months to September 30.

The results were hurried out to coincide with the publication of BaE's offer document.

BaE's bid offers 2.747 of its shares for each VSEL share with a cash alternative of £11.40.

At BaE's closing price, up 25p to 489p, the bid values each VSEL share at £13.68 and the company at £518m.

BaE shares had risen on market speculation that GEC

might bid for it. VSEL shares did not follow, however, and closed down 2p at £13.33. GEC has declared that it is a possible bidder for VSEL.

The offer document includes details of VSEL's results. In its last full-year statement the company predicted that its 1994-95 profits would be similar to last year and trading profits for the first half were £24.4m compared with £24.7m. Turnover declined from £233.2m to £194.7m.

Interest income on the company's cash pile has increased from £4.1m to £5.8m, lifting the pre-tax result.

The interim dividend is increased from 10.5p to 12p, payable from earnings of 52.5p (43.9p) per share.

The document says that trading continues to be in line with the board's previous forecast.

The document also confirms that Lord Chalfont, VSEL's chairman, will become an adviser to BaE until next July if the recommended offer goes ahead.

Mr Noel Davies, the chief executive, will also be a consultant to BaE during the handover period.

Information made available to BaE in the course of discussions is expected to be made available to GEC in the next day or so. Any GEC bid would be for cash, and it would take the company some days to assess information provided by Morgan Grenfell, VSEL's bankers.

BaE is to hold an extraordinary meeting on November 2 to approve the takeover bid. Proxy votes must be registered by October 31.

BaE forecasts that its total dividend for 1994 will be not less than 10p, an increase of 20 per cent on the previous year.

The offer document also discloses that VSEL is in a legal dispute with British Shipbuilders, from which it was privatised in 1986. VSEL would be obliged to pay British Shipbuilders (a government-owned company) an additional amount if its profits rose above a certain level after privatisation.

The dispute could cost VSEL up to £40m, but the company is fighting the claim.

## WMI rises 11% in third quarter

By Peggy Hollinger

Weak prices reined in profits growth at Waste Management International, the UK quoted arm of WMX Technologies of the US, which yesterday announced an 11 per cent improvement in third quarter pre-tax profits.

Mr Nigel Wilson, of WMI, said the group was disappointed following a mixed third quarter performance, in spite of strong sales growth.

Pre-tax profits rose from £38.9m to £43.1m on sales 23 per cent ahead to £288.5m. Profits for the nine months rose 14 per cent to £125.4m on sales up 20 per cent to £831.7m.

Revenue growth in the quarter was due to roughly equal measures to acquisitions and underlying volume gains. About 3 percentage points of the sales improvement was down to price increases.

Mr Wilson said operating margins had slipped from 16.8 per cent to 16.2 per cent in the quarter.

This was partly due to problems in Italy, which is WMI's single largest market with 25 per cent of its total sales.

Municipal customers in Italy were renegotiating contracts at prices of between 10 and 20 per cent below existing arrangements. These reductions would have to be recovered through productivity improvements.

The company also suffered from a poor performance in the highly competitive French market. Mr Wilson said volume at some group landfills was running at about two thirds of peak levels.

WMI said it was pleased with volumes in the UK, and it was beginning to see some signs of the "significant price increases" being talked about in UK landfill.

Mr Wilson said WMI was comfortable about prospects in the UK market, even if Brown-Ferris Industries, the large US waste services group, wins its hostile £364m bid for Attwoods. Such a major force could bring "further support for environmental regulation," which would improve the market, the company said.

In the Asia/Pacific region, WMI enjoyed good growth in Hong Kong, a higher margin business which would also benefit in 1995 from the landfill opened last week.

WMI has spent £40m on 35 acquisitions so far this year. Earnings rose by 6 per cent to 7.2p for the quarter.

Analysts are forecasting annual profits of about £175m this year, with significant improvements from European recovery and east Asia feeding through in 1995.

Richardson Group, the engineering concern, doubled pre-tax profits from £63,000 to £120,000 in the six months to June 30.

Turnover moved ahead from £6.38m to £8.23m.

Mr John Crabtree, chairman, said Steel Supports was making inroads into the European and overseas power generation markets, while Richardson Engineering had secured its first substantial order in the expanding Chinese market.

The interim dividend is held at 12p, payable from earnings of 1.07p (0.55p) per share.

Audax Properties, a wholly owned subsidiary of Value and Income Trust, doubled pre-tax profits from £54,000 to £110,000 for the half year to September 30.

There was a realised loss of £24,000 (£20,000) on disposal of properties. Earnings per share for the period amounted to 132p (50p).

Dividends announced

Current payment Date of payment Current dividend Total for year Total last year

BMSS Int 2.9 Dec 2 1.5 - 3

BS Int 3 Dec 1 nil - nil

Farnell Elect Int 3.8 Dec 5 3.2 - 7.4

Forward Tech Int 0.5 Nov 30 nil - 0.25

Geared Income Int 1.75t Nov 30 1.75 - 8.075

Highland Dist Int 5.5 Jan 12 5 7.26

MY Holdings Int 1.1t Jan 23 1 1.25

Richards Int 1 Nov 28 1 2.25

Ross Int nil - 0.2 - 0.4

VSEL Int 12 - 10.5 - 34

Dividends shown pence per share net except where otherwise stated. 10p increased capital. 25p second quarterly, making 3.25p (same) so far.

Traded Options Software

INDEXIA

City Index

## Strong overseas growth helps Farnell to £28.7m

By Paul Taylor

Farnell Electronics, the components distributor and manufacturer, reported sharply higher interim profits and turnover, reflecting strong overseas growth and the £41m acquisition of the Multicomponents distribution business.

Pre-tax profits for the six months to July 31 increased by 36 per cent to £28.7m (£21.1m). Turnover grew by 77 per cent to £221m (£147m), underlying growth was 13.5 per cent.

"Overseas growth was particularly strong," said Mr Richard Hanwell, chairman. Both the high volume distribution and the low-volume catalogue businesses improved profitability overseas, he said, "demonstrating the success of offering customers a pan-European service."

The Multicomponents operations, renamed Farnell Electronic Services, added £93.7m to turnover in the first half and £2.2m to operating profits, which increased by 40 per cent to £28.8m (£21.3m).

Overall, the overseas FES operations doubled profits on sales up 15 per cent. In the UK, sales volumes at FES increased by 11 per cent but margins remained under pressure.

Farnell Electronic Components reported a 22 per cent increase in profits on sales 12.3 per cent ahead.

The UK operations achieved steady sales growth while overseas sales were up by more than 40 per cent.

Particularly strong sales of power supplies for the telecommunications sector helped the group's manufacturing operations to increase sales by



Howard Poulson: growth will focus on higher margin business

26 per cent, but results from Farnell Instruments were "disappointing".

At the end of July the group had net borrowings of £8.67m, equivalent to gearing of 7 per cent.

Interest costs totalled £1.07m (£138,000), reflecting borrowings undertaken to finance the purchase of Multicomponents.

Earnings per share grew by 36 per cent to 14.3p (10.5p). The interim dividend is increased by 19 per cent to 3.8p (3.2p).

Mr Harry Elstone is to step down as finance director, although he will remain on the board. He is succeeded by Mr Andrew Fisher.

Mr Bob Horton, chairman of Railtrack, and Mr Barry Bramley, a director of BAT Industries, are both joining the board as non-executives.

### COMMENT

Once again Farnell has produced a strong underlying performance, justifying its decision to expand its overseas operations. Following a recent strategic review undertaken by Mr Howard Poulson, the chief executive, the company intends to focus future growth on the higher margin catalogue distribution business and is particularly interested in expanding in the US or east Asia - possibly through acquisition. Pre-tax profits should climb to about £62m this year, producing earnings of about 30.6p. At 53p, the shares are trading on a forward multiple of 17.4 - a small discount to competitors such as Electronic Components - and well below their 12-month peak of 63p.

## Acquisitive MY leaps to £4.5m

By Richard Wolfe

MY Holdings, the packaging group, pledged to continue its acquisitions strategy after announcing an 80 per cent rise in pre-tax profits for the year to August 27.

The company, which spent £23.3m acquiring four packaging businesses this year, increased pre-tax profits from £2.5m to £4.5m on turnover up 46 per cent to £51.2m (£35.1m).

Mr John Monks, chief executive, said the company was

considering another share issue to fund acquisitions this year. In February, the group raised about £23m through a placing which more than doubled its market capitalisation.

"This year's acquisitions are not the end of the story. We are only at the beginning," he said.

"We like healthcare and would like further expansion in that sector. We are also looking to continue our expansion of specialist corrugated activities, and would like to fill in gaps in our geographical

spread. We do not really have anything in the Midlands and the west country, and the Scottish market would be very interesting to us."

However, the directors warned that operating margins, which increased from 7.6 to 9.4 per cent last year, would come under pressure from price rises for its pulp and paper raw materials.

Turnover on continuing businesses rose by 13 per cent to £39.8m, despite a poor performance by Tronex, the moulded cushion

packaging business.

Stripping out acquisitions, operating profit grew 12 per cent to £3m.

Interest costs increased from £164,000 to £301,000 as the group raised its borrowing for cash acquisitions and capital investment. Gearing rose from 4.2 to 16.3 per cent.

Earnings per share grew 16 per cent to 4.5p (3.8p), as the number of shares doubled.

The board recommended a final dividend of 1.1p to make a total of 1.6p (1.25p) for the year.

## Acorn slides £1.98m into red as schools tighten spending

By Alan Cane

Acorn Computer Group, the dominant supplier of school computers in the UK, lapsed into the red at the halfway stage as changes in education spending patterns and the cost of new initiatives took their toll.

Turnover was flat at £23.7m (£23.6m). The deficit amounted to £1.98m against a pre-tax profit of £305,000 and losses per share came out at 3.2p (0.5p earnings).

Mr Sam Wauchope, managing

director, said the first half was affected by changes in the pattern of education spending as budgetary control and financial management were devolved to schools.

Customers had also delayed purchases in anticipation of the launch in April of the Risc PC, Acorn's new top-of-the-line offering. At the period end there was an order backlog of more than 2,000 Risc PC systems.

The USM-traded group now comprises three companies: Acorn Computers, Advanced

Risc Machines, designer of the ARM family of low power consumption microprocessors in which Acorn has a 47 per cent stake, and Online Media, a new division established to exploit the emerging market for interactive multimedia. Online Media incurred an operating loss because of start-up costs. ARM made pre-tax profits of £1.2m in the first half, of which Acorn's share was £499,000.

Mr Wauchope said Risc PC was proving a success and was confident Acorn would return to profit in the second half.

## Forward Tech recovery continues

Forward Technology Industries continued the recovery seen in the second half of last year and reported pre-tax profits of £340,000 for the half year to June 30, compared with losses of £123,000.

The company produces specialist machinery for plastic assembly, precision cleaning and lamp making, largely overseas, while the main UK activity is the reproduction of audio and video cassettes.

Turnover advanced to £21.7m (£20.1m). Earnings per share were 0.5p (3.5p losses) and the interim dividend is 0.5p (nil).

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### NEWS DIGEST

#### Riva loss deepens to £629,000

Increased pre-tax losses of £629,000, against £425,000, were announced by Riva Group, the USM-quoted supplier of electronic point of sale systems, for the half year to June 30.

The result was in line with expectations, said Mr Peter Giles, chairman. Revenue was stable but, in common with the industry, there were declining hardware margins.

He said the outcome for the year was sensitive to volumes in the last quarter but was not expected to show a significant improvement on the first half.

Turnover edged ahead to £27m (£26.4m). Losses per share deepened to 2.5p (1.9p).

Shaftesbury buys

Shaftesbury is expanding its property interests in London's West End to Carnaby Street.

The company is paying Berkeley Hambro £9.75m cash for a block of 11 freehold shops and restaurants, with offices, at the corner of Carnaby Street and Beak Street in Soho. Covering a total of 47,000 sq ft, the block currently produces an annual income of £785,000.

Pioneer buy-out

Montagu Private Equity has arranged a £10.2m management buy-out of Pioneer Exhausts, the Stoke-on-Trent manufacturer of replacement systems for the principal car makers.

Pioneer has grown steadily since it was founded in 1980. It makes about 200 different parts for 130 popular car models. Its sales are mainly to independent garages and local/regional distributors and motor factors

started encouragingly with sales showing a significant increase over last year.

Earnings per share climbed to 2.4p (1.7p) and the interim dividend is raised to 2p (1.5p).

Saville Gordon

J Saville Gordon Group, the property investment concern, said it was a member of Northern Natural Resources, which in turn is a member of Mining (Scotland), the preferred bidder for Scottish Coal.

It has agreed to subscribe up to £5m by way of equity capital if the bid is successful. That would represent about 10 per cent of Mining Scotland's equity. JSG's investment in Northern Natural Resources was £11,700.

Kingfisher

Kingfisher, the retail group which includes the B&Q DIY chain, announced that the Paris Bourse quotation for the electrical retailer it acquired last year, has been suspended as its Financiere Darty subsidiary is considering exercising its power to acquire the outstanding 2 per cent of shares which it does not already own.

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1st December-31st November 1994	1.000	1st December-31st November 1994	1.000
1st December-31st November 1994	1.000	1st December-31st November 1994	1.000

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October 18, 1994, London

CITIBANK



# FRAUD: PREVENTION AND DETECTION

Tuesday October 18 1994

The first national fraud forum this week comes at a time when the incidence of this crime in business is rising steadily. Robert Peston reports

## Focus on financial crimes sharpens

The first national fraud forum, bringing together representatives of the police, regulatory agencies, and private sector investigators, is being held this week.

The three-day event, organised by the Association of Chief Police Officers (Acpo), will bring together all groups interested in the fight against this growing crime for the first time, to discuss how to improve prevention and investigation procedures.

It comes, moreover, at a time when companies and the government are increasingly aware of the penalties of failing to implement effective procedures to prevent fraud.

The government has this year been considering introducing plastic identity cards to replace benefit books, in an attempt to save some or all of the hundreds of millions of pounds lost every year in social security fraud.

Meanwhile, a growing number of companies has implemented much tighter internal auditing procedures, in a bid to detect possible frauds at a much earlier stage.

Fraud comes in so many different forms - from the company director who uses company funds to take his partner on holiday to the wholesale theft of hundreds of millions by the corrupt Bank of Credit and Commerce International - that it is notoriously difficult to define.

It is not explicitly described in criminal law, but in practice it is treated by the authorities as a sophisticated form of theft, usually involving deceit to obtain funds. Prosecution is normally carried out under the 1968 Theft Act.

Detailed statistics on the

national scale of fraud are equally elusive, but Network Security Management, the fraud investigation business controlled by the merchant bank Hambros, estimates that companies on average lose between 2 per cent and 5 per cent of their turnover as a result of fraud.

An attempt at obtaining more precise statistics has been made by the investigation arm of accountants, Ernst & Young. Its survey in 1992 of 100 companies, covering most industrial and commercial sectors, found that 24 per cent had reported a fraud costing more than £250,000 at least once in the previous two years and that 30 per cent had reported a fraud exceeding £50,000 in the same period. More than a third had suffered a fraud but not notified the authorities.

Banks in particular have been particularly reluctant to report frauds, fearing publicity would damage the confidence of their customers.

Ernst & Young has recently completed another survey of these 100 companies: 98 per cent believed that there had either been no diminution, or a rise in the incidence of fraud over the past two years.

In its assessment of reported frauds KPMG Peat Marwick's fraud investigation unit identified 27 significant cases involving the attempted theft of £254m in the first six months of 1994, a larger number than in the whole of 1991.

These increases are perhaps surprising, since the level of fraud which comes to light usually rises as the economy goes into recession, falling back again as the economy recovers, as at present.

There are probably two rea-

sons for the counter-cyclical trend. First, a company hit by tougher trading conditions may resort to fraud to prop itself up - the motive widely ascribed to the late Robert Maxwell for his decision to plunder his companies' pension schemes. Second, honest companies facing tough times may examine their costs more closely - and in the process detect hitherto hidden frauds.

The specific types of fraud showing the greatest increases, according to Detective Superintendent John Probert and other experts, are insurance, mortgage and banking frauds, such as advance fee fraud. All three are simple in concept. Mortgage fraud, for example, usually involves overstatement of the purchase price of a property, so that a bank or building society lends more than the actual price - with the difference being pocketed. Earlier this year, charges alleging a £100m fraud were brought against one group of development companies after a three-year investigation.

The apparent abundance of work has led to a sharp increase in the number of private sector firms involved in giving advice on prevention, as well as the detection and recovery of lost funds. As a result, the market has become far more competitive.

At the same time, the services offered by some less scrupulous firms - and the methods they use - threatens to sully the image of all. Some agencies advertise openly that they can obtain confidential details of bank accounts, credit card records or medical information, for modest fees.

However, for police fraud squads the greatest challenge

is how to do the job effectively while having to compete against other policing priorities for increasingly scarce resources.

There are 850 officers involved in fighting fraud throughout the UK, with the biggest single unit, the London-based Metropolitan Fraud Squad, employing 150 policemen and a further 40 people in support services.

The Metropolitan Police Fraud Squad, working in partnership with other agencies, and with an annual budget of £10m last year, recovered more than £20m in cash and securities obtained by fraudsters,

compared with £10.6m in the previous year.

The Met claims to have prevented frauds worth £6.57m in the twelve months to March 31, 1994. However, this figure is slightly misleading because it includes one unusually big case: a £5.5m attempted fraud on the Agricultural Bank of China.

Persistent and widespread criticism of the Serious Fraud Office, which was set up in 1988 to lead the battle against the most complex and substantial forms of financial crime has to some extent undermined morale in the official fraud agencies. The SFO was given

large financial and staff resources including lawyers and accountants as well as policemen.

Because the government believed that the fight against fraud presented very different challenges from those presented by other kinds of crime, the SFO was made independent of the Crown Prosecution Service, handling both investigations and prosecutions.

Detection has remained, however, the responsibility of the police and City of London regulatory authorities, such as the Stock Exchange and the Bank of England. The SFO was also given unique powers in Section

2 of the Criminal Justice Act 1988 to remove a suspect's right to silence and compel witnesses to give evidence.

However, its handling of some high-profile cases - notably the Blue Arrow trial and the prosecution of the financial services salesman, Roger Levitt - has been clumsy, and its future is under review by the government. Officials believe it could be merged with its less glamorous sister, the Fraud Investigation Group, under the umbrella of the Crown Prosecution Service. An announcement is likely before the end of the year.

The multi-disciplinary

approach which the SFO applies - combining the skills of police, accountants and lawyers - is likely to be increasingly adopted by agencies and firms involved in the fight against fraud, whether they are private sector or public sector.

Building those bridges between different institutions with their different skills will be the focus of the forum this week.

According to some experts, such co-operation between the police and private sector firms could one day lead to privatisation of some of the fraud squads' activities.



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## FRAUD: PREVENTION AND DETECTION II

Money Laundering: Ian Rodger discusses reasons why the frequency of this crime has increased

## Greater alertness uncovers more cases

Money laundering has suddenly become one of the most frequent of crimes being attacked by law enforcement officers and politicians.

Scarcely a week goes by without a fresh call to action being issued against this most discreet of crimes.

And scarcely a week goes by without a new case of money laundering coming to light or being prosecuted. It even figured in the recent macabre case of more than 50 religious cult-related deaths in Switzerland and Canada.

The two trends are of course related. The increased focus on the problem has made banks and law enforcers more sensitive to it, thus leading to greater surveillance and more discoveries.

According to recent estimates by US and UK officials, the amount of money laundered every year amounts to roughly \$500bn. This money is the fuel that keeps organised crime going and growing, mainly in support of the international drug trade but also for various other sophisticated crimes, from insider trading to the traffic in nuclear materials.

The attack on money lau-

dering only became serious in the 1980s, mainly because of the expanding drug business. And there are still several loopholes or weak points within the international financial system, some of them bizarre.

For example, in the US, which probably still tops the world money laundering league table, a 1970 Secrecy Act requires financial institutions to report suspicious transactions. But wire transfers, the most common form of transaction, are excluded from this requirement.

In theory, money laundering should be relatively easy to prevent. If banks and other financial institutions deal only with customers they know and if they monitor carefully certain types of potentially suspicious transactions, they should be able to keep out big-time financial criminals.

That is the rationale behind a plethora of guidelines and

recommendations that have been issued by various international organisations in recent years.

Starting in 1988, the Basle Committee on Banking Regulations and Supervisory Practices issued a recommendation calling on banks to make "rea-

It has been estimated that the amount of money laundered annually is \$500bn

sonable efforts" to determine the true identity of customers.

The following year, the group of seven leading industrial countries set up a Financial Action Task Force to study ways of curbing money laundering. FATF has since established guidelines for national financial systems and carried out audits of several leading countries.

A European Council 1991 directive on the prevention of the use of the financial system for the purpose of money laundering came into effect throughout the European Union at the beginning of last year. It obliges all financial institutions to know the true identity of their clients and to report any suspicious transactions to the police.

Money launderers tend to use large financial centres or tax havens to try and disguise routes to the sources of their earnings.

It is in places such as Switzerland, the City of London or New York that they are likely to find a few bent bankers willing to help them.

In an attempt to preserve their reputations, these centres have been among the most aggressive in introducing laws and guidelines to prevent money laundering.

The Swiss Federal Banking

Commission, for example, issued detailed guidelines in 1992 outlining no fewer than 30 specific transactions - withdrawals, purchase of drafts, transfers or excessive cash movements - that should be regarded as suspicious.

This year, a new law has broken the conflict between Switzerland's bank secrecy provisions and criminal investigations. Bankers may now report substantial suspicions of criminal activities by their clients to state prosecutors. This is, in fact, tantamount to an obligation. Failure to do so would be regarded by the banking commission as negligence.

Switzerland has also made insider trading, money laundering and membership in a criminal organisation criminal offences, thus bringing them within the orbit of crimes on which it is willing to co-operate with law enforcers from

other countries.

With this sort of tightening occurring in most western countries, the focus has in the past couple of years moved eastward and southward.

Money launderers were quick to realise that the former Warsaw pact and Soviet Union

The FBI and Scotland Yard is tightening the noose on the tax havens of the Caribbean

countries, with no experience of financial markets and with a desperate need for hard currency, were easy victims.

There is also believed to have been a large flow of ill-gotten funds from former Communist officials to western banks.

In June, Treuhandsanstalt, the industrial reconstruction agency for eastern Germany,

launched a civil action in Zurich against the Swiss subsidiary of Bank Austria.

It claimed that agents of the former East German Communist Party stashed Sch.1.76bn (\$162m) there in the spring of 1991 as the German Democratic Republic collapsed. Bank Austria, Austria's largest bank, has denied the charges.

In September, EU finance ministers met with their central and eastern European counterparts in Berlin and, among other things, urged the eastern countries to tighten their laws and regulations against money laundering.

Meanwhile, the noose appears to be tightening on the tax havens of the Caribbean. In January, the US Federal Bureau of Investigation and Britain's Scotland Yard set up a joint task force to fight white-collar crime in the UK dependent territories.

The British Government has

also recently reprimanded Gibraltar for not implementing the EU directive on money laundering.

Such is the momentum that several speakers at an international symposium on economic crime at Cambridge University in England in September recommended that economic sanctions be imposed on countries that do not combat money laundering seriously.

The idea was backed by a number of delegates attending the symposium. John Moscow, New York's assistant district attorney, said: "It is an idea whose time has come."

All of this activity does not mean that money laundering is going to disappear in the near future. Even if new criminals are rebuffed by banks, it is going to take them some time to clear their books of long-standing dubious customers.

This problem was highlighted by a case earlier this year in which a \$150m account of a suspected Colombian drug dealer came to light at the Union Bank of Switzerland. It had remained undetected for several years partly because there had been very few transactions into or out of it.

The former Soviet Union: Jimmy Burns on fears of money laundering

## Mafia gangs target the west

There are increasing fears among regulators and law enforcement agencies that so-called Russian Mafia networks may be penetrating western financial systems with the object of laundering their illicit cash.

The break-up of the Soviet Union has brought in its wake a huge flight of capital estimated by senior bankers to be as much as \$1bn a month. It has also led to a proliferation of gangs involved in financial corruption and illegal trade whose operations threaten to extend well beyond the former Soviet Union states.

These fears were voiced in July this year by Albert Pacey, the director-general of the UK's National Criminal Intelligence Service, during a visit to Moscow and in evidence to a House of Commons committee.

British police believe that although Russian gangsters are most active in eastern Europe and Germany, there are indications that they may move their operations to other parts of western Europe.

The National Criminal Intelligence Service (NCIS) refuses to discuss specific cases. However, last year under new regulations requiring banks and

other institutions to report "suspicious financial transactions", there were 13,000 cases reported to NCIS of which 200 involved Russians.

"That is not a large number, but what distinguished the Russian cases were the amounts involved - from £500,000 to several million pounds," says Mr Pacey.

An NCIS briefing paper earlier this year states that "the nations of eastern and central Europe and the former Soviet Union have enormous potential to impact significantly upon Europe and the United Kingdom... the situation in the Russian Federation continues to give particular cause for concern."

According to NCIS, the significance of the UK in terms of criminal groups emanating from the Soviet Union and eastern Europe is that "UK financial institutions, over a

long period, are being used for the transfer of large sums of illicit funds."

NCIS identified four areas for potentially illicit transactions emanating from the for-

There are indications Russian gangsters may move their operations to western Europe

mer Soviet Union:  
■ Laundering of funds from "general criminal activity" including extortion;  
■ Laundering of funds involving trade in high-technology equipment;  
■ Laundering of funds from the sale of weapons, commodities, and precious metals, including radio-active material; and  
■ The transfer to the west of former Communist Party



Albert Pacey: situation in Russia is causing concern

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Bank of England, while Russian businessmen wishing to set up a trading operation in the UK are subject to immigration controls.

In practice, according to some senior bankers, some Russians may be taking advantage of areas such as the property business, which is not subject to significant institutional controls. They may also be using offshore centres to confuse investigators tracking money flows.

Some Russians may be taking advantage of areas such as the property business

ing money flows.  
Barry King, finance director of Chartwell International (UK), a financial consultancy firm which specialises in the former Soviet Union, says part of the problem for regulators in the west is identifying what amounts of Russian flight capital actually emanate from criminal activity.  
"If you are a western bank it is very difficult to know what the current rules and regula-

tions are regarding capital export from the former Soviet Union," says Mr King.

He believes that it is difficult to prove that any of the Russians who are investing in property in London or setting up trading companies are engaging in illegal activity "although there are clearly a few cowboys who are bending the rules".

There is certainly some evidence suggesting that the problem may be even graver. According to other banking sources, some trading companies in the UK have in recent months been approached by individuals in the former Soviet Union with known connections with the criminal fraternity who asked them to arrange for transfers running into several millions of pounds. Meanwhile, some estate agents are thought to

have refused to proceed with contracts with Russians after becoming suspicious about the amount of money available and the dubious nature of references given.

Few money transfers, however, involve a direct transaction between the former Soviet Union and the UK. One area of concern to regulators is the financial offshore centre of Cyprus where numerous "brass-plate" Russian companies have been set up together with banks to facilitate hard currency deposits by businessmen and officials. There are suspicions that some of the Cyprus-based companies - with on-transfers to other financial centres such as Switzerland - are being used to launder illicit profits from activities such as arms smuggling, prostitution, and bogus trade deals.

Peter Marsh on the incidence of false accounting in the European Union

## Exploiting the EU loopholes

Something is rotten in the rapidly evolving mega-state of Europe. The stale odour of systematic fraud is persistently leaking from investigations of the European Union's financial arrangements, but so far there has been little concrete remedial action.

Expert opinion is that up to 10 per cent of the EU's budget of Ecu70bn (\$87bn) a year is diverted to the wrong recipients either through fraud or improper exploitation of financial loopholes. The exact figure is impossible to calculate because most fraud is undetected. However, Lord Hunt of Tarnworth, a former top-ranking UK civil servant who

Up to 10 per cent of the EU's annual budget of Ecu70bn is diverted to the wrong recipients

served as cabinet secretary and who is chairman of the House of Lords' European Communities committee, does not dispute the 10 per cent figure.

In July, Lord Hunt's committee issued a damning report on EU fraud which said: "We have increasingly come to the conclusion that most fraud in the EU happens because the administrative procedures and financial controls are not lucidly defined by community legislation, and because the procedures and controls [in member states] are defective.

There is no central responsibility in the European Commission for ensuring that new regulations and schemes are foolproof and this is far from being the prime consideration in the policy-making directorates (of the commission)."

Most fraud involving EU spending follows directly from the extreme complexity of the rules for channelling money from Brussels to member states for projects such as infrastructure programmes or supporting food prices. This makes it relatively easy for fraudsters - who can range from highly organised criminal gangs to opportunistic individuals taking occasional advantage of an EU loophole - to make a financial gain.

This can happen, for example, through a farmer applying for an extra subsidy on, say, a cotton shipment simply by filling in a form saying he has grown 10 per cent more than he really has. Behind many of the frauds discovered over the past few years have been such cases of falsified documentation, sometimes created with the connivance of government officials in the state where the act is taking place. Indeed, a factor which may help the fraudster is that often the country where he or she is operating may see no particular advantage in combating the fraud. The government involved may be willing to turn a Nelsonian eye to evidence of what is taking place



Lord Hunt: his committee issued a damning report on EU fraud

on the grounds that the cash from Brussels is boosting the local economy whether or not it is being spent according to the letter of EU rules.

At the level of the European Commission itself, officials operate within a culture where it is the spending of money that is all important, not the monitoring of the extent to which the spending achieves agreed objectives. Operating along these lines, Brussels officials frequently become embarrassed when the subject of fraud crops up. In many ways they are as reluctant as are some member governments to discuss the incidence of fraud and how to tackle it. This is because raising the subject may irritate the member government where the alleged fraud is taking place and may be seen to be against the co-operative spirit driving the union.

Italy is one of the focal points of fraud investigations. Italian prosecutors recently alleged that Filippo Galli, the head of the state organisation overseeing EU agriculture subsidies, took bribes from a big grain trader to ignore evidence of massive corruption. In one instance documented by Uclaf, the European Commission's anti-fraud unit, traders claimed a subsidy of Ecu4m (\$5.4m) for a large shipment of wheat which supposedly was kept in intervention storage in a government warehouse but which inquiries indicated did not exist.

In another recent case, sugar traders in Belgium are thought

to have gained about Ecu5m in extra subsidies by claiming to have transferred a large quantity of this commodity out of the EU to states in the former Soviet Union, so qualifying for an export refund, whereas the sugar was really sold at high prices in Spain.

What is being done about EU fraud? Several moves are afoot, though the effect of these actions may turn out to be fairly slight. Uclaf, which has a new director, Per Erik Knudsen, an energetic and outspoken Danish customs officer, is doubling its staff to 100 by the end of the year and promises to be more diligent in detecting fraud cases and bringing miscreants to justice through co-operation with national authorities.

Second, the EU's agricultural aid programme, which accounts for half the total EU spending and is thought to account for the lion's share of fraud, is being radically changed to cut down on subsidies overall and to change the direction of subsidies towards farmers rather than traders and processing companies where opportunities for false accounting are great.

Third, the Luxembourg-based Court of Auditors, the

The Court of Auditors is becoming more eager to highlight cases of fraud or improper action

EU's financial watchdog, is becoming more eager to highlight cases of fraud or improper action. However, most of its deliberations and actions are kept secret. The court also lacks the self-confidence to take the initiative on big cases of fraud or financial mismanagement, and as a result its power to influence the broad picture on fraud is limited.

It seems that the efforts to improve the EU's far from impressive record on combating fraud can only really come from the centre, via the commissioners installed in Brussels by the member governments. Much will therefore depend on how the new crop of commissioners, easing into their positions over the next few months, approach a subject which is certain to command an increasing amount of attention from outside pressure groups and from taxpayers concerned that their cash is being mispent.

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## FRAUD: PREVENTION AND DETECTION III

Industrial espionage is a growing problem in business, says Peter Marsh

## Is there a spy in your boardroom?

Is there a turner in the boardroom? This question, being increasingly asked by big and small companies around the world, has nothing to do with art collections but is concerned with the growing problem of industrial espionage.

Industrial espionage can be defined as virtually any technique aimed at taking a company's secrets. Although electronic surveillance or computer hacking more often grab the headlines, the most common form of industrial espionage is for a rival company to employ an insider - or a turner in the trade jargon - to give them inside information.

Industrial espionage is increasingly worrying executives in highly competitive areas of industry. High-tech businesses such as aerospace, engineering, computers and telecommunications are frequent victims but companies in other fields, where

marketing or advertising strategies may be as important as new product information, are also suffering.

Behind the phenomenon is the large financial advantage that a rival company may gain from a timely insight into a competitor's product ideas or marketing plans.

"Why should a company spend £100m on research and development when it can gain the relevant knowledge from a rival for a much smaller outlay?" asks Peter Helms, a British security consultant.

According to Paul Carratu, managing director of Carratu International, a London-based fraud investigator, the most common form of industrial espionage concerns disaffected employees offering this type of information to a rival for a fee.

More often than not you see the opportunist approach where the employee

makes the information available via an intermediary such as a security company. It is less common to see the more direct approach where a rival goes out actively to seek the information through bugging or similar means," says Mr Carratu.

It follows, therefore, that the most sensible ways to try to stop industrial espionage are through common sense tactics that are really nothing more than an extension of good management. Among these are restricting access to sensitive product or marketing information; keeping a check on documents that could be of value to a rival; and trying to sort out personal problems involving employees before the person affected becomes so disgruntled that he or she even thinks of starting to hawk secrets to competitors.

Of course, deciding on where to draw the line on potentially sensitive information may be highly tricky. There is a story much recounted among industrial espionage investigators of a company that, in the cause of improving communications with its employees, revealed detailed marketing information about a new product launch in its internal company newspaper several weeks before the product appeared. Not surprisingly, the details leaked out to a competitor and the company launched an industrial espionage probe which ultimately led to the dismissal of the newspaper's unfortunate editor.

The point underlines the fact that industrial espionage covers a wide spectrum.

One estimate of the extent of industrial espionage is that about half of all big companies may have had secret information leaked over the past decade by some form of espionage. The phenomenon is rel-

atively widespread in the US, France and Italy, according to Mr Carratu. "There is less industrial espionage in Britain: in the UK it's thought not to be ethical to indulge in this kind of thing," he says.

Understandably enough, most companies hit by industrial espionage do not like to talk about it. But in recent years the businesses affected have included BP and



Bug expert Conrad Sandier, of Spy Catcher, displays equipment available in his shop

Shell, which suffered as a result of outsiders gaining access to secret tender information for engineering contracts through the information leaking out via an unscrupulous marketing agent. Volkswagen and General Motors have recently been locked in a long-running battle over allegations by the US company that its rival "stole" secrets - allegedly channelled to the German car maker by the defection to Volkswagen of Jose Ignacio Lopez de Arriortua, a Spaniard who had been running GM's worldwide parts purchasing operations. SKF, the Swedish ball-bearing company, also recently suffered an embarrassing loss of its new product plans which was later traced to a disgruntled employee.

Electronic surveillance is a method frequently used by competitors to gain access to secrets. A rival boardroom can be bugged - perhaps using the services of a person contracted for this purpose who uses the "cover" of working for a cleaning company - with an instrument the size of a matchbox and costs no more than £100. Such devices, with tiny microphones and which transmit over perhaps a quarter of a mile, can be very difficult to spot if cleverly hidden.

Alan Cane checks the incidence of computer fraud

## Networks open to hackers

Do not be surprised by the paucity of published examples of computer fraud. Perpetrators and victims both have a strong interest in keeping quiet. Financial institutions, in particular, do not relish admitting that their systems' security has been compromised.

Fortunately, the danger of "hackers" breaking into corporate computer systems is often exaggerated by the press and by security consultants; it is nevertheless real.

Philip Swallow, a specialist in security with Andersen Consulting, says: "Hacking is far from being a myth but neither is it endemic. Managers have to be aware of the risks involved. Computer fraud by its very nature can be difficult to detect."

The European Information Technology Observatory (EITO), an organisation of European IT companies, noted earlier this year: "With the increasingly pervasive usage of computers in all contexts

and activities, the security of information and of the systems that manage the information is becoming of great importance."

EITO points to two important developments in recent years: the definition of security standards within the rules

designed to allow computers from different manufacturers to work together (Open Systems Interconnect or OSI) and the establishment of criteria and rules for the security evaluation of information

technology products.

A critical point is that computer security is relative. It is possible in theory to create a completely secure system, but cost and inconvenience would make it unattractive. The level of security implemented represents, therefore, a balance of business interests.

The diversity of ways of attacking a system lends itself to colourful descriptions. There are trap doors (part of the software written in such a way that the security of the system is compromised), Trojan horses (parts of the software written so the system performs unauthorised and covert operations), logic bombs (part of the software written to trigger an operation at a subsequent date) and mas-

querades or piggy backs where a fraudulent terminal pretends to have legitimate access to the system.

Most of these attacks depend on a corrupt member or members of the data processing department. Only a software specialist with intimate knowledge of a company's software would have the skill and opportunity to insert a trap door or logic bomb. Systems compromised by trap doors or logic bombs are difficult to

detect the very complexity of many systems makes it difficult to check every program and section of computer code.

Attacks on computer systems from the outside are increasing. In one survey in the UK, about a quarter of the companies questioned said there had been unauthorised attempts to gain access to their systems. The National Computing Centre in the UK estimates the average cost of a security breach to a company is £9,000.

Alan Stanley of the consultants Coopers & Lybrand says the most recent figures for the UK show that some 40 per cent of companies believe their systems have been hacked into, although the damage level is low. Some 13 per cent of mission critical operations had been compromised, but again, little damage was done.

Measuring the level of security afforded by a computer system has been simplified by the publication of evaluation criteria. The lead was taken by the US in 1983 with the Orange Book; it provides essentially a set of standard security measures for implementation by computer users each with an indication of the level of confidence afforded.

European users, however, have never been wholly satisfied with the Orange Book, arguing that it is chiefly geared to military systems.

The European Union has now published its own set of criteria, the White Book, which EITO says "could be considered as the beginning of European standards for evaluating computer trust". It is, EITO argues, "one of the most significant events in the last decade in the European IT security scenario and it might cover the shortcomings and

gaps of the Orange Book". The White Book evaluates systems in terms of their functionality and effectiveness, with special reference to database management, process control, exchange data integrity, high confidentiality and high integrity environments.

The fact remains that computer systems, no matter how secure, greatly increase the possibilities for fraud. Funds can be moved virtually instantaneously anywhere in the world through computer networks. Is fraud on the increase? There is a simple, positive correlation between the level of fraud, the number of computers in use, the number of people who have know-

ledge of and access to computers and the number of terminals attached to computers.

The Internet, the world's largest computer network with more than 25m users, represents a special case. Designed as a channel of electronic communication between scientists and technologists, it was intended to be as accessible as possible. There is little in the way of built-in security. Earlier this year thousands of Internet passwords were stolen giving the thieves access to secret messages and files.

Now that commercial companies are taking an interest in the Internet for communications, the question of security is more than academic. Managers are becoming interested in electronic "firewalls", methods of preventing security lapses on the Internet from compromising their systems. An example would be a multi-computer controlling access to the Internet, collecting and authenticating messages.

Encryption is one way to make electronic messages secure but it is controversial. The US administration was forced to abandon efforts to introduce a special encryption chip, the "Clipper", which would have allowed pc users to protect themselves from hackers and fraudsters. Developed by the National Security Agency and the National Institute of Standards and Technology, its use would have allowed secret service personnel to decrypt the messages.

John Mason examines the effectiveness of the Serious Fraud Office

## Track record raises doubts

The future of the Serious Fraud Office, set up in 1986 to spearhead the fight against financial crime in the UK, is highly uncertain.

Question marks over its track record recently prompted a government review which recommended a merger between the SFO and the lower profile fraud investigation group (Fig) of the Crown Prosecution Service (CPS).

If the review's conclusions are adopted, the SFO would be subsumed into the CPS. To some observers this would appear an admission that the original conception of an elite department to combat the most complex cases of financial fraud has failed.

The attorney-general, Sir Nicholas Lyell, is now considering the merger proposal. At the same time, he will decide on parallel proposals for the SFO and CPS to be turned into executive agencies outside the civil service as part of the government's plans to streamline Whitehall. Sir Nicholas is expected to announce his conclusions on the proposed merger by the end of the year.

So what has gone wrong? The SFO was set up with unique powers and structure to bring an increased effectiveness to the investigation and prosecution of complex financial crime. Its brief is to tackle those cases which involve considerable sums of money (more than £5m) and are of a particularly complex nature.

Unlike the CPS, it handles both the investigation and prosecution stages - although detection remains the responsibility of the police and City regulatory bodies. Its multidisciplinary structure, in which lawyers, accountants and police are supposed to pool their skills, is intended to increase the effectiveness of its investiga-

tions. Finally, it was given unique powers in Section 2 of the Criminal Justice Act 1988 to remove the right to silence and compel witnesses to give evidence.

With these powers, the SFO was supposed to be able to tackle complex fraud cases that had proved virtually impossible for police fraud squads working on their own to handle. However, as has been documented exhaustively in the press, the SFO's track record since its inception has been mixed.

Its initial success in the Guinness trial, when four prominent City figures were convicted over the 1986 takeover of Distillers, proved the high point. Since then, headlines have been restricted to reporting failures such as the Blue Arrow trial, after which the SFO was criticised by the Court of Appeal for the size and unmanageability of the prosecution, and the Banco over Mr Roger Levitt, the financial services salesman who served 180 hours' community service after agreeing to a widely criticised plea-bargaining with the prosecution.

Lawyers involved in defence and prosecution work agree that not all the responsibility for such failures should be laid at the door of the SFO. The legal system that the SFO has to operate within still has crucial failings in its ability to present fraud cases that are tried by a jury. For example, there is common agreement that within the judiciary there are all too few judges with the necessary experience of both commercial and criminal cases to handle such difficult cases.

Equally, George Staple, the SFO director, insists that efforts have been made to learn from previous mistakes, notably on bringing to court cases that are too large

and unwieldy. However, its past failings and the consequent bad publicity has proved highly damaging for the SFO. It has had its success stories - such as the four successful prosecutions which followed the large-scale investigation into the collapsed Bank of Credit and Commerce International - but these are less well reported.

The result has been that the SFO has found itself in a similar position to that of the beleaguered Child Support Agency - forced on to the defensive by a poor public image it is finding difficult to reverse. The question of public perception - rightly or wrongly acquired - is one that the attorney-general will have to consider. For the SFO to be effective, it is widely agreed, it has to be widely seen to be a credible organisation.

Perception aside, the initial review of the workings of the SFO and Fig concluded there are sound reasons for a merger of the two bodies. It found that there is considerable overlap in the work they carry out and that it is anomalous to apply different methods to what amount to very similar cases. This problem has been enhanced over the past year because the number and size of cases referred to the SFO has dropped significantly, leaving it to pick up smaller cases that would previously have been dealt with by Fig.

The review also found room for improvement in the management of both bodies. The SFO, it reported, was not fully exploiting its current systems and lacked formal management overview of important decisions.

It did, however, conclude that the "Section 2" powers removing the right to silence had proved an effective weapon.

Profile: KROLL ASSOCIATES

## Wall Street's private eye

Kroll Associates, the world's leading corporate investigative agency, has not generally been shy of publicity. They have managed to present an image of a dynamic sleuthing operation, whose success has

bred an impressive client list which includes governments and leading companies.

However, in recent months the agency's founder and majority owner, former New York prosecutor Jules Kroll,

has been on the defensive, fighting off rumours of significant internal problems and creeping financial difficulties.

The suggestion of something approaching an organisational haemorrhage has been fuelled by a spate of high-level resignations and the threat of more to come.

In an interview published in the New York Times early in September, Mr Kroll blamed unnamed competitors for spreading false rumours about the financial condition of his company which, in turn, had provoked a round of crisis management at Kroll itself.

Most of those who have left say their reason for going was to set up their own smaller, private investigation agencies.

Mr Kroll and the remaining senior executives insist that the resignations do not signify the beginning of the end. In London, Kroll's senior man, Thomas Helsby, boasts of a "critical mass of experience" among its staff which can without difficulty absorb and overcome the temporary setback of the resignations.

Not only has Kroll managed to hang on to many of its talented investigators on a full-time and freelance basis, it retains what it considers one of its biggest assets: a highly developed in-house data system. As one competitor reluctantly conceded: "Kroll has a powerful armoury of research capability."

Mr Helsby, with characteristic bullishness, says: "Our business is growing and growing, adding on new things all the time. This office is having the best year it has ever had." In New York, Mr Kroll has published figures showing that his company has remained profitable with a pretax profit

margin of about 12 per cent. Revenues are expected to exceed \$60m this year compared to \$40m in 1990, with an increase in clients over the past four years of 78 per cent.

What Kroll executives are not prepared to counter with any conviction is the widely aired view held by its competitors that the agency may in one sense have fallen victim to its own success: its turnover is being badly dented by disputed debts on at least two highly publicised cases.

In August, it emerged in New York that Kroll was suing the family of the late Italian banker Roberto Calvi for non-payment of \$5m. Kroll, which has filed a court action in the US, hopes it will recover the money as well as recoup the legal costs it will incur.

Rather more problematical is the non-payment of an even larger sum believed to stem from a contract with the Russian government. It is estimated the contract may have cost Kroll up to \$4.7m.

The extent of the hurt caused by the setbacks, depends on whether the company can continue to diversify. Following its formation in 1972, Kroll established itself fairly quickly as Wall Street's private eye, specialising in investigations involving mergers and acquisitions. With the recession, Kroll has cast an increasingly wide net to attract clients.

It still considers due diligence reports on companies part of its core work, along with fraud investigations, but its target is to become an unrivalled international provider of planning and analysis on every aspect of security and risk management.

Mr Kroll hopes to quadruple his firm's revenues by the end of the decade, building on its partnership with the US insurance company American International Group (AIG) bought 23 per cent of Kroll last year.

Jimmy Burns

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# Brazilian rain sends coffee futures lower

By Alison Meitland

Coffee futures rebounded from a sharp setback in volatile trading yesterday, affected by rainfall that has relieved a long drought in Brazil, the world's biggest producer.

In London, the January robusta futures contract staged a strong comeback after losing \$118 at one stage, to close just \$23 lower at \$3,485 a tonne. This compares with its nearly nine-year high of \$4,140 on September 22.

New York arabica futures continued the trend, moving sharply lower in early trading, but then striding back in the afternoon, with the March position up 14.50 cents at 207.25 cents a pound on a wave of buying.

The volatility appeared to reflect uncertainty over whether the rain during the weekend, and forecasts of more to come during the early part of this week, would do anything to relieve the pressure on next year's Brazilian crop. This is expected to be well down following the drought and the two severe frosts that hit the country in June and July. A report yesterday by Weather Services, an independent US observer, said the recent drought was worse than the last severe dry spell of 1985.

There was also speculation that an export sugar tax announced by Brazil on Friday might be followed by a similar tax on coffee. GNI, the London broker, commented in its daily report: "Coffee prices are still

historically very high, and the government could well impose a stiff export tax in the very near future."

However, Mr Robert MacArthur, head of the Tropical Trader Group at Merrill Lynch in London, said the price volatility had more to do with traders' own positions than with any shift in fundamentals.

Indonesia, the world's third largest coffee producer, said it would increase coffee output to 450,000 tonnes next year and predicted exports at around 300,000 tonnes, Reuters reports from Jakarta.

The prolonged drought this year had affected production for next year. Production would be 420,000 tonnes this year, down from 480,000 tonnes last year.

# Alcoa says avoid rivals

By Kenneth Gooding, Mining Correspondent

Employees of Aluminum Company of America, the world's biggest aluminium group, have been told to stay away from meetings where competitors are likely to be present.

Mr Paul O'Neill, chairman, made this odd instruction in the recent decision by the US Justice Department to investigate whether US aluminium producers broke antitrust laws when they cut production after government representatives from some of the major aluminium-producing regions signed an unprecedented Memorandum of Understanding in February.

Alcoa insisted that Mr O'Neill's instruction did not arise from any heightened concern about the antitrust inquiry. Mr O'Neill said in his note to senior managers he was sure no employee had engaged in any improper conduct. Nevertheless, "it is prudent to take into account the possibility of changing standards of enforcement and compliance by governmental agencies as administrative change. As a responsible company we want to assure the reduction of any risks arising from misunderstandings regarding contacts with competitors."

In future, employees would need explicit permission to attend any meeting where rival companies would be represented.

However, Alcoa has told the US Aluminium Association and the International Primary Aluminium Institute it will continue to supply them with statistics. The Justice Department investigation surprised the industry because three department lawyers were present to advise on the memorandum. Alcoa of Canada and the European Aluminium Association have also been asked to co-operate in the department's inquiry.

# Dutch agriculture urged to act on competitiveness and quality

By Ronald van de Krol in Amsterdam

Dutch agriculture must go on the offensive if it is to maintain its leading position in European and world exports, according to Mr Joost van Aartsen, agriculture minister in the new Dutch government.

Mr Aartsen's call for action, made last week, follows the publication of a report showing that farmers, horticulturists and livestock breeders are losing their reputation for quality and failing to respond to changes in European demand.

The minister urged farmers, agricultural produce boards and other organisations in the sector to come up with ideas for a response to the report's findings by the end of the year.

The report, compiled by the consultants A.T. Kearney at the ministry's request, concludes that the agricultural sector - a key motor of the Dutch economy, accounting for 26 per cent of exports - is lagging behind competitors in countries such as France and Denmark.

"In the mid-1980s the Dutch agri-sector was a textbook example of efficiency and quality. Since then it has changed into a bulk producer with low product variety," the report said.

The Netherlands' competitive position in cut-flowers and seeds remains strong, but this is not enough to compensate for weaker performances in the dairy, vegetable and pork sectors.

The consultants argue that the Netherlands' relative decline in European market share has been masked by continued increases in the value and volume of agricultural sales.

One of the main factors behind the decline is the failure by Dutch agriculture to respond effectively to the demand for a greater range of products and product specifications, particularly from Europe's increasingly powerful food retail groups.

In the dairy sector, for example, the report cited criticism by retailers of Dutch cheese-makers, which have scored just one success over the past 15 years: the launch of Leerdammer cheese.

By contrast, the Danish and the French have turned their attention to feta and mozzarella cheeses to take advantage of the popularity of Mediterranean products.

The Dutch, unlike the Germans and French, also seem to have missed the growth of European demand for new desserts.

One reason for the lack of innovative skill seems to be a conflict of interest within the Netherlands' agricultural co-operatives.

At dairy co-operatives, the owners - the farmers - want high prices for their milk. But the co-operatives would be able to make more long-term investments in research and development of new products if raw material prices fell, the report said.

# Fresh talks on international rubber pact set for February

By Frances Williams in Geneva

A third attempt to negotiate a new international rubber pact will be made in February after consuming and producing countries failed to agree on the crucial issue of the reference price during two weeks of talks in Geneva.

The 1987 International Natural Rubber Agreement, which expires on December 31, will be extended for a further year when the pact's governing council next meets in Kuala Lumpur at the end of November.

Producing countries had argued for a 5 per cent rise in the reference price which has remained virtually unchanged at 196.84 Malaysian/Singapore cents a kilo since 1978. However, consumer nations, led by the European Union, refused to budge.

The rubber agreement is the only remaining international commodity pact with price stabilisation provisions under which buffer stock operations are used to keep the market price of rubber within a fixed range centred on the reference price.

Mr Peter Lai, chairman of the United Nations-sponsored negotiations, said after the talks ended on Friday that there was "much sympathy" for an increase in the level of the lower indicative price - the price below which the buffer stock manager may, but is not obliged, to buy in stocks to prevent further falls.

There was also "the same measure of sympathy" for a more frequent review of the price range than the present 15 months. Another area of disagreement, the duration of the new accord, was unlikely to pose much difficulty, Mr Lai added. The options are a 3-year or 5-year accord with the possibility in each case of a 2-year extension.

Thirty-one countries took part in the Geneva talks, including the most important exporters and importers. The next round will be held in Geneva from February 6.

The argument over the reference price arises from different views of market prospects. Producers say price levels set by the 1987 accord do not guarantee farmers' livelihoods and are leading to production cut-backs at a time of rising demand. Prices this summer reached their highest levels for more than six years.

Consumers believe market conditions do not justify a rise in the reference price of rubber, maintaining that recent price rallies have been driven by short-term factors and by speculators.

One possible compromise is a rise in the indicative price, which is related to production costs and is therefore an important signal to growers, while leaving the reference price unchanged.

# Ukraine expects lowest grain harvest in over a decade

By Matthew Kaminski in Kiev

Ukraine, the former Soviet Union's bread basket blessed with exceptionally fertile soil, yesterday announced it expects this year's grain harvest to be the lowest in over a decade.

The gross harvest, including corn, will stand at 37.7m tonnes this year, 6.4m less than expected and a 17 per cent drop on last year's 45.6m tonne harvest, according to the Ministry of Agriculture.

However, Mr Viktor Gluzdov, a government spokesman, told Interfax-Ukraine news agency yesterday that Ukraine does not plan to make up the gap with imports and that the harvest is sufficient to meet domestic demand.

The large state-run sectors produced a 35m tonne harvest, short of an expected 40.7m tonnes. The tiny private farms showed slightly better average yields.

will be 28.6 centners per hectare, roughly half western European levels.

The blame for the lower yields - the spring crop was also down 40 per cent - rests partly on a drought this year and on the slow pace of Ukraine's attempts to overhaul the agricultural sector, which is ruled by powerful lobbies.

Declining production might jump start reform, however. Structural changes urged by the World Bank include land reform, privatisation of food processing and farm infrastructure such as grain silos, and liberalisation of domestic trade in products.

Experts say reforms are needed to improve incentives for farmers who are currently forced to sell at low state-set prices, and to restructure the inefficient collective still dominant in Ukraine.

Mr Neil Spooner, an agricultural consultant, said the fault

# MARKET REPORT Copper highly volatile

COPPER fluctuated wildly on the London Metal Exchange yesterday, reaching \$2,530 a tonne at one stage before closing \$5 down from Friday at \$2,475.50.

There was a \$5 a tonne premium for metal for immediate delivery compared with three-month aluminium at the close and that backwardation (premium) reached a notional \$50 at one point. Traders said the bulk of the activity reflected "third Wednesday" pricing and trading, and covering against nearby option commitments. Big cash purchases defended the \$2,500 level in the morning before heavy Far Eastern selling and fund liquidation established the lower trend, they said.

ALUMINIUM prices reached a new four-year high of \$1,720 a tonne before closing at \$1,715.50, up \$7.75. Compiled from Reuters

## COMMODITIES PRICES

### BASE METALS

#### LONDON METAL EXCHANGE

(Prices from Ammetals/Ammetals Metal Trading)

■ ALUMINIUM, 99.7 PURITY (\$ per tonne)

Close 1985-9.5 1715-20

Previous 1987-2 1707-5-6

High/Low 1988 1720/1710

AM Official 1988-5-9 1716-17

Kerb close 1715-6

Open int. 255,459

Total daily turnover 113,080

■ ALUMINIUM ALLOY (\$ per tonne)

Close 1985-9.5 1715-20

Previous 1987-2 1707-5-6

High/Low 1988 1720/1710

AM Official 1988-5-9 1716-17

Kerb close 1715-6

Open int. 3,078

Total daily turnover 448

■ LEAD (\$ per tonne)

Close 540-1 651-2

Previous 541-5-5 652-5-5

High/Low 540-5-5 652-5-5

AM Official 540-5-5 652-5-5

Kerb close 652-5-5

Open int. 43,082

Total daily turnover 21,113

■ NICKEL (\$ per tonne)

Close 6555-60 6565-6

Previous 6570-80 6580-75

High/Low 6570-80 6580-75

AM Official 6570-80 6580-75

Kerb close 6580-75

Open int. 75,324

Total daily turnover 15,085

■ TIN (\$ per tonne)

Close 5380-5 5400-5

Previous 5400-5 5420-5

High/Low 5400-5 5420-5

AM Official 5400-5 5420-5

Kerb close 5420-5

Open int. 15,491

Total daily turnover 2,585

### Precious Metals continued

■ GOLD COMEX (100 Troy oz; \$/Troy oz)

Oct 389.8 +2.2 389.1 389.0 6 9

Nov 390.8 +2.1

Dec 391.1 +2.1 390.3 390.2 10,100

Jan 391.4 +2.1 390.6 390.5 10,100

Feb 391.7 +2.1 390.9 390.8 10,100

Mar 392.0 +2.1 391.2 391.1 10,100

Apr 392.3 +2.1 391.5 391.4 10,100

May 392.6 +2.1 391.8 391.7 10,100

Jun 392.9 +2.1 392.1 392.0 10,100

Jul 393.2 +2.1 392.4 392.3 10,100

Aug 393.5 +2.1 392.7 392.6 10,100

Sep 393.8 +2.1 393.0 392.9 10,100

Oct 394.1 +2.1 393.3 393.2 10,100

Nov 394.4 +2.1 393.6 393.5 10,100

Dec 394.7 +2.1 393.9 393.8 10,100

Jan 395.0 +2.1 394.2 394.1 10,100

Feb 395.3 +2.1 394.5 394.4 10,100

Mar 395.6 +2.1 394.8 394.7 10,100

Apr 395.9 +2.1 395.1 395.0 10,100

May 396.2 +2.1 395.4 395.3 10,100

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Aug 397.1 +2.1 396.3 396.2 10,100

Sep 397.4 +2.1 396.6 396.5 10,100

Oct 397.7 +2.1 396.9 396.8 10,100

Nov 398.0 +2.1 397.2 397.1 10,100

Dec 398.3 +2.1 397.5 397.4 10,100

Jan 398.6 +2.1 397.8 397.7 10,100

Feb 398.9 +2.1 398.1 398.0 10,100

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May 399.8 +2.1 399.0 398.9 10,100

Jun 400.1 +2.1 399.3 399.2 10,100

Jul 400.4 +2.1 399.6 399.5 10,100

Aug 400.7 +2.1 399.9 399.8 10,100

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Oct 401.3 +2.1 400.5 400.4 10,100

Nov 401.6 +2.1 400.8 400.7 10,100

Dec 401.9 +2.1 401.1 401.0 10,100

Jan 402.2 +2.1 401.4 401.3 10,100

### GRAINS AND OIL SEEDS

■ WHEAT LCE (\$ per tonne)

Oct 104.80 +0.20 105.00 104.50 1,816 285

Nov 105.00 +0.20 105.20 104.50 1,816 285

Dec 105.20 +0.20 105.40 104.50 1,816 285

Jan 105.40 +0.20 105.60 104.50 1,816 285

Feb 105.60 +0.20 105.80 104.50 1,816 285

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2 HOTELS



**INVESTMENT TRUSTS - Cont.**

## LEISURE & HOTELS

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 Free Calls 0022 845, 10

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**AIS Investment Managers (Guernsey) Ltd**  
 22 Rue de la Poste, St Peter Port, Guernsey GY1 0AA 0481 7108

[illegible]

Lazard Fund Mgrs (Channel Islands) Ltd

[illegible][illegible]

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[illegible]

Make	Model	Year	Offer Price	+ or -	Year
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[illegible]

	Est.	Seller	4-87
	Price	Price	"

[illegible]

<b>Chemical Ireland Fund Administrators</b>		
<b>Korea Domestic Corp Bond</b>	<b>\$10.21</b>	<b>--</b>
<b>Int Performance</b>	<b>\$15.48</b>	<b>--</b>

[illegible]

\* Yield expressed as C.A.R. (Crops/acre)

[illegible]

**LOWEST INCOME** ..... 88.41

[illegible][illegible][illegible]

Assist. Entrepreneur	\$16.77
<b>Lomax Financial Services</b>	
Workday Investment	28.77

[illegible]

... ..

[illegible]

United States	_____	_____	_____
Germany	_____	_____	_____
Hong Kong	_____	_____	_____
Spain	_____	_____	_____

1991	1990	1989	1988	1987	1986	1985	1984	1983	1982	1981	1980	1979	1978	1977	1976	1975	1974	1973	1972	1971	1970	1969	1968	1967	1966	1965	1964	1963	1962	1961	1960	1959	1958	1957	1956	1955	1954	1953	1952	1951	1950	1949	1948	1947	1946	1945	1944	1943	1942	1941	1940	1939	1938	1937	1936	1935	1934	1933	1932	1931	1930	1929	1928	1927	1926	1925	1924	1923	1922	1921	1920	1919	1918	1917	1916	1915	1914	1913	1912	1911	1910	1909	1908	1907	1906	1905	1904	1903	1902	1901	1900	1899	1898	1897	1896	1895	1894	1893	1892	1891	1890	1889	1888	1887	1886	1885	1884	1883	1882	1881	1880	1879	1878	1877	1876	1875	1874	1873	1872	1871	1870	1869	1868	1867	1866	1865	1864	1863	1862	1861	1860	1859	1858	1857	1856	1855	1854	1853	1852	1851	1850	1849	1848	1847	1846	1845	1844	1843	1842	1841	1840	1839	1838	1837	1836	1835	1834	1833	1832	1831	1830	1829	1828	1827	1826	1825	1824	1823	1822	1821	1820	1819	1818	1817	1816	1815	1814	1813	1812	1811	1810	1809	1808	1807	1806	1805	1804	1803	1802	1801	1800	1799	1798	1797	1796	1795	1794	1793	1792	1791	1790	1789	1788	1787	1786	1785	1784	1783	1782	1781	1780	1779	1778	1777	1776	1775	1774	1773	1772	1771	1770	1769	1768	1767	1766	1765	1764	1763	1762	1761	1760	1759	1758	1757	1756	1755	1754	1753	1752	1751	1750	1749	1748	1747	1746	1745	1744	1743	1742	1741	1740	1739	1738	1737	1736	1735	1734	1733	1732	1731	1730	1729	1728	1727	1726	1725	1724	1723	1722	1721	1720	1719	1718	1717	1716	1715	1714	1713	1712	1711	1710	1709	1708	1707	1706	1705	1704	1703	1702	1701	1700	1699	1698	1697	1696	1695	1694	1693	1692	1691	1690	1689	1688	1687	1686	1685	1684	1683	1682	1681	1680	1679	1678	1677	1676	1675	1674	1673	1672	1671	1670	1669	1668	1667	1666	1665	1664	1663	1662	1661	1660	1659	1658	1657	1656	1655	1654	1653	1652	1651	1650	1649	1648	1647	1646	1645	1644	1643	1642	1641	1640	1639	1638	1637	1636	1635	1634	1633	1632	1631	1630	1629	1628	1627	1626	1625	1624	1623	1622	1621	1620	1619	1618	1617	1616	1615	1614	1613	1612	1611	1610	1609	1608	1607	1606	1605	1604	1603	1602	1601	1600	1599	1598	1597	1596	1595	1594	1593	1592	1591	1590	1589	1588	1587	1586	1585	1584	1583	1582	1581	1580	1579	1578	1577	1576	1575	1574	1573	1572	1571	1570	1569	1568	1567	1566	1565	1564	1563	1562	1561	1560	1559	1558	1557	1556	1555	1554	1553	1552	1551	1550	1549	1548	1547	1546	1545	1544	1543	1542	1541	1540	1539	1538	1537	1536	1535	1534	1533	1532	1531	1530	1529	1528	1527	1526	1525	1524	1523	1522	1521	1520	1519	1518	1517	1516	1515	1514	1513	1512	1511	1510	1509	1508	1507	1506	1505	1504	1503	1502	1501	1500	1499	1498	1497	1496	1495	1494	1493	1492	1491	1490	1489	1488	1487	1486	1485	1484	1483	1482	1481	1480	1479	1478	1477	1476	1475	1474	1473	1472	1471	1470	1469	1468	1467	1466	1465	1464	1463	1462	1461	1460	1459	1458	1457	1456	1455	1454	1453	1452	1451	1450	1449	1448	1447	1446	1445	1444	1443	1442	1441	1440	1439	1438	1437	1436	1435	1434	1433	1432	1431	1430	1429	1428	1427	1426	1425	1424	1423	1422	1421	1420	1419	1418	1417	1416	1415	1414	1413	1412	1411	1410	1409	1408	1407	1406	1405	1404	1403	1402	1401	1400	1399	1398	1397	1396	1395	1394	1393	1392	1391	1390	1389	1388	1387	1386	1385	1384	1383	1382	1381	1380	1379	1378	1377	1376	1375	1374	1373	1372	1371	1370	1369	1368	1367	1366	1365	1364	1363	1362	1361	1360	1359	1358	1357	1356	1355	1354	1353	1352	1351	1350	1349	1348	1347	1346	1345	1344	1343	1342	1341	1340	1339	1338	1337	1336	1335	1334	1333	1332	1331	1330	1329	1328	1327	1326	1325	1324	1323	1322	1321	1320	1319	1318	1317	1316	1315	1314	1313	1312	1311	1310	1309	1308	1307	1306	1305	1304	1303	1302	1301	1300	1299	1298	1297	1296	1295	1294	1293	1292	1291	1290	1289	1288	1287	1286	1285	1284	1283	1282	1281	1280	1279	1278	1277	1276	1275	1274	1273	1272	1271	1270	1269	1268	1267	1266	1265	1264	1263	1262	1261	1260	1259	1258	1257	1256	1255	1254	1253	1252	1251	1250	1249	1248	1247	1246	1245	1244	1243	1242	1241	1240	1239	1238	1237	1236	1235	1234	1233	1232	1231	1230	1229	1228	1227	1226	1225	1224	1223	1222	1221	1220	1219	1218	1217	1216	1215	1214	1213	1212	1211	1210	1209	1208	1207	1206	1205	1204	1203	1202	1201	1200	1199	1198	1197	1196	1195	1194	1193	1192	1191	1190	1189	1188	1187	1186	1185	1184	1183	1182	1181	1180	1179	1178	1177	1176	1175	1174	1173	1172	1171	1170	1169	1168	1167	1166	1165	1164	1163	1162	1161	1160	1159	1158	1157	1156	1155	1154	1153	1152	1151	1150	1149	1148	1147	1146	1145	1144	1143	1142	1141	1140	1139	1138	1137	1136	1135	1134	1133	1132	1131	1130	1129	1128	1127	1126	1125	1124	1123	1122	1121	1120	1119	1118	1117	1116	1115	1114	1113	1112	1111	1110	1109	1108	1107	1106	1105	1104	1103	1102	1101	1100	1099	1098	1097	1096	1095	1094	1093	1092	1091	1090	1089	1088	1087	1086	1085	1084	1083	1082	1081	1080	1079	1078	1077	1076	1075	1074	1073	1072	1071	1070	1069	1068	1067	1066	1065	1064	1063	1062	1061	1060	1059	1058	1057	1056	1055	1054	1053	1052	1051	1050	1049	1048	1047	1046	1045	1044	1043	1042	1041	1040	1039	1038	1037	1036	1035	1034	1033	1032	1031	1030	1029	1028	1027	1026	1025	1024	1023	1022	1021	1020	1019	1018	1017	1016	1015	1014	1013	1012	1011	1010	1009	1008	1007	1006	1005	1004	1003	1002	1001	1000	999	998	997	996	995	994	993	992	991	990	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47 Boulevard Royal, L-1011 Luxembourg  
European Growth  
Pacific Growth Series  
Global Growth Series

[illegible]

**Custom Recovery**

[illegible]

1111

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## CURRENCIES AND MONEY

## MARKETS REPORT

## German elections push dollar to two year low

The dollar yesterday fell to a two year low on the foreign exchanges as Chancellor Kohl's victory in the German elections lent support to the D-Mark, writes Philip Gauthier.

The dollar's weakness prompted talk of central bank intervention to support the currency.

Analysts said the re-election of Mr Kohl had removed the last prop of support for the dollar. Market concerns that the US Federal Reserve is losing the battle against inflation are also contributing to dollar weakness.

It finished yesterday in London at DM1.5035, from DM1.5030 on Friday. Earlier it had touched a low of DM1.4970 in Asian trading, below the previous 1994 low of DM1.5160. Yesterday evening it fell below DM1.50 again in New York trading. Against the yen, it finished in London at ¥97.85, from ¥98.285.

The D-Mark's performance was mixed. It finished firmer against the French franc, at

FFr3.434, from FFr3.428, but was weaker against the Belgian franc, at BFr20.58, from BFr20.61.

The Finnish vote in favour of EU membership lent support to the markka, which traded at Fm3.078 to the D-Mark from Friday's close of Fm3.0910.

Sterling was also weaker against the D-Mark, finishing at DM2.4168 from DM2.4207. It was firmer against the dollar, closing at \$1.6074 from \$1.5935.

Despite the bearishness surrounding the dollar, trading volumes were not large. Analysts said customers were cautious, many had seen DM1.51/52 as a potential buying opportunity, but were now put off by the bearish technical outlook.

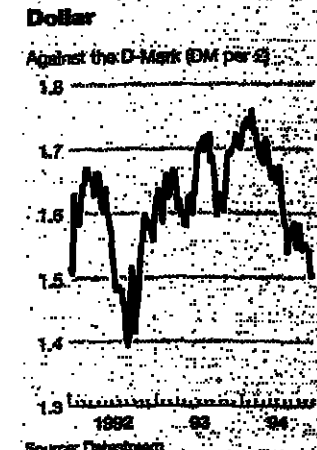
Mr Brian Marber, technical analyst, said that the dollar's

downward break out of its recent trading range meant "a very large fall has become possible. I am expecting an eventual DM1.3910."

Mr David Cocker, analyst at Chemical Bank in London said the absence of any profit taking on the stronger D-Mark was bearish for the dollar. "This suggests the dollar has the potential to go lower still," he said.

This view was echoed by Mr Joe Prendergast, strategist at Faribas capital markets. He noted: "The response of the markets reflects the fact that the last safety net for dollar bulls in 1994 has been removed."

With the German election result having been largely discounted by the market, analysts said there had not been any large-scale D-Mark buying. Although the German election result was the catalyst for the latest bout of dollar weakness, it is also the victim of market fears about US inflation. Mr Mike Rosenberg, man-



Source: Deutsche Bank

aging director of international fixed income research at Merrill Lynch in New York, said the market feared that softer than expected US economic data last week would lead to a Fed move to raise interest rates immediately.

"But the feeling in the market is that the Fed is already behind the curve," he added.

Declaring a "mini-dollar crisis", Mr Rosenberg said there was evidence that the US Treasury was setting itself up for intervention to support the currency. "We could be within 24 or 48 hours of a significant coordinated effort."

He said the problem was that the market was already expecting intervention and this reduced the prospect of it succeeding. This, in turn, was a reason not to intervene, because to intervene and to fail was worse than to do nothing.

Mr Rosenberg said that the Fed might be trying to lure the market into believing it would not intervene. This would encourage traders to establish short positions, thus increasing the likelihood of successful intervention, as traders would be forced to cover short positions, adding impetus to the dollar's recovery.

Mr Avinash Persaud, currency strategist at JP Morgan in London, said he doubted whether the Bundesbank would intervene to curb the

D-Mark's advance. At the moment it was more likely to see the stronger D-Mark as a useful brake on German growth than as something to be resisted.

In addition, Mr Hans Tietmeyer, president of the Bundesbank, has said that there remains scope for lower interest rates. These would help curb the D-Mark's rally.

The Bank of England provided UK money markets with £250m of late assistance. Earlier it had provided £677m of assistance at established rates, after forecasting a £1.15bn shortage.

In Germany the election result had no market impact on rates, with call money unchanged at 4.90/95 per cent.

## WORLD INTEREST RATES

## MONEY RATES

October 17	One month	Three months	Six months	One year	Long term	Dis. rate	Repo rate
Belgium	4 1/2	4 1/2	4 1/2	4 1/2	4 1/2	4.50	-
France	4 1/2	4 1/2	4 1/2	4 1/2	4 1/2	4.50	-
Germany	4 1/2	4 1/2	4 1/2	4 1/2	4 1/2	4.50	-
Italy	4 1/2	4 1/2	4 1/2	4 1/2	4 1/2	4.50	-
Netherlands	4 1/2	4 1/2	4 1/2	4 1/2	4 1/2	4.50	-
Spain	4 1/2	4 1/2	4 1/2	4 1/2	4 1/2	4.50	-
Sweden	4 1/2	4 1/2	4 1/2	4 1/2	4 1/2	4.50	-
Switzerland	4 1/2	4 1/2	4 1/2	4 1/2	4 1/2	4.50	-
UK	4 1/2	4 1/2	4 1/2	4 1/2	4 1/2	4.50	-
US	4 1/2	4 1/2	4 1/2	4 1/2	4 1/2	4.50	-
Japan	4 1/2	4 1/2	4 1/2	4 1/2	4 1/2	4.50	-

## LIBOR FT London

October 17	One month	Three months	Six months	One year
3 month	5.50	5.50	5.50	5.50
6 month	5.50	5.50	5.50	5.50
12 month	5.50	5.50	5.50	5.50

ECU United De bid rates: 1 mth: 5 1/2; 3 mth: 5 1/2; 6 mth: 5 1/2; 1 year: 5 1/2. LIBOR Interbank bid rates are offered rates for \$10m against the sterling by four reference banks in New York working day. The banks are Citicorp, Chase, Bank of Tokyo, and National Westminster.

Mid rates are shown for the domestic Money Rates. US Cds and SDRs United Deposits (Cds).

## EURO CURRENCY INTEREST RATES

October 17	Short term	7 days	One month	Three months	Six months	One year
Belgium	4 1/2	4 1/2	4 1/2	4 1/2	4 1/2	4 1/2
France	4 1/2	4 1/2	4 1/2	4 1/2	4 1/2	4 1/2
Germany	4 1/2	4 1/2	4 1/2	4 1/2	4 1/2	4 1/2
Italy	4 1/2	4 1/2	4 1/2	4 1/2	4 1/2	4 1/2
Netherlands	4 1/2	4 1/2	4 1/2	4 1/2	4 1/2	4 1/2
Spain	4 1/2	4 1/2	4 1/2	4 1/2	4 1/2	4 1/2
Sweden	4 1/2	4 1/2	4 1/2	4 1/2	4 1/2	4 1/2
Switzerland	4 1/2	4 1/2	4 1/2	4 1/2	4 1/2	4 1/2
UK	4 1/2	4 1/2	4 1/2	4 1/2	4 1/2	4 1/2
US	4 1/2	4 1/2	4 1/2	4 1/2	4 1/2	4 1/2
Japan	4 1/2	4 1/2	4 1/2	4 1/2	4 1/2	4 1/2

Short term rates are for the US Dollar and Yen, others two days' notice.

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## AMERICA

## Weak dollar and bonds inhibit Dow

## Wall Street

Blue chip stocks posted modest gains yesterday morning, but the wider market languished as fresh weakness in the dollar and bond prices ensured that overall investor sentiment remained subdued, writes Patrick Harrington in New York.

By 1 pm, the Dow Jones Industrial Average was up 10.77 at 3,221.24. The more broadly based Standard & Poor's 500 was 0.46 lower at 468.64, while the American Stock Exchange composite was up 0.06 at 458.56 and the Nasdaq composite softened 0.86 to 786.22. Trading volume on the New York SE was 131m shares by 1 pm.

After posting gains of more than 100 points last week, the Dow continued on its upward path yesterday, but the market's advance was not entirely convincing, with secondary indices all lagging well behind the blue chip average.

Analysts said that there was nothing specific to explain the gains in the Dow. The mood of the market, however, has been generally positive in the past week because recent economic and inflation statistics have helped ease fears that the Federal Reserve would put up interest rates again before the end of the month. Prices have also been buoyed by mostly strong third quarter corporate earnings.

The absence of a more broadly-based advance yesterday was blamed on weakness in the dollar, which fell sharply on foreign markets overnight, and on a modest decline in bond prices. By early afternoon, the benchmark 30-year bond was down slightly by more than a quarter of a point, and its yield had risen to 7.850 per cent.

Among individual issues, General Electric eased 3/4 to \$50.40, while PaineWebber firming 3/4 to \$15 on the news that GE was selling its troubled Kidder, Peabody investment banking

unit to PaineWebber in a deal that will leave GE with a 25 per cent stake in the securities firm.

Eastman Kodak fell 5/8 to \$48.12 in volume of 2m shares amid reports that the company was preparing to embark on another round of cost cuts in expectation of weak second-half earnings.

Chemical Waste jumped 1 1/4 to \$8.94 on the news that the company had signed a definitive merger agreement with WMX Technologies in a deal that put a higher value on Chemical Waste than had been originally outlined in a July pact. The news left WMX shares up 3/4 at \$24.

On the Nasdaq market, California Micro Devices slumped 5 1/4 to \$5.40 after the company said it was investigating possible accounting irregularities that could affect its financial results.

## Canada

Toronto was slightly softer at midday as the market cast around for direction amid a dearth of fresh news. The TSX-300 composite index eased 2.40 to 4,590.02 in volume of 29.7m shares.

Remarks by the federal finance minister Mr Paul Martin reiterating the government's commitment to tackling the country's deficit problem lent some strength to the Canadian dollar.

## Mexico

Mexican stocks opened little changed as investors shadowed the mixed movements of Mexican blue chips traded on Wall Street.

The IPC index was off 4.31 at 2,782.00 by mid-morning.

Turnover was moderate at 23.4m pesos in volume of 1.97m shares.

Brokers said that they expected equities to make gains during the week in anticipation of a flow of third-quarter results before the end of the month.

## EUROPE

## Dollar weakness hits bourses after Kohl victory

Sunday's narrow victory for Germany's Conservative/Liberal coalition was seen as a reassurance for the country's financial markets, and it certainly seemed to be good for both the D-Mark and bonds, writes Our Markets Staff.

It had less apparent effect on the Frankfurt equity market, but Mr James Cornish, the NatWest strategist who concentrates on the European political scene, put this in perspective. "It is good for equities, too," he said, "but they were already up by more than 7 per cent last week."

Outside Germany, he added, the Kohl win should be good for countries with a commitment to hard currency, it was probably no coincidence that the usually sedate Danish equity market posted a rise of 1.5 per cent yesterday.

FRANKFURT's professionals went fishing for more buyers in the early morning, with prices marked up and a little buying lifting Dax futures. However, the buyers did not bite and, from an index-indicated high of 2,147.3 in the morning, the market slipped rapidly to close the session 14.85 lower at 2,090.88.

Turnover rose from DM5.4bn to DM8.5bn and, in the afternoon, the Dax recovered a little to 2,095.58. Unfortunately, what

## FTSE Actuaries Share Indices

		THE EUROPEAN SERIES									
		11.00	11.30	12.00	13.00	14.00	15.00	Close			
Oct 17	Hourly changes	Open									
FT-SE Europe 100	1298.97	1298.97	1298.97	1298.97	1298.97	1298.97	1298.97	1298.97			
FT-SE Europe 200	1410.00	1410.00	1410.00	1410.00	1410.00	1410.00	1410.00	1410.00			

		THE EUROPEAN SERIES									
		11.00	11.30	12.00	13.00	14.00	15.00	Close			
Oct 17	Hourly changes	Open									
FT-SE Europe 100	1298.97	1298.97	1298.97	1298.97	1298.97	1298.97	1298.97	1298.97			
FT-SE Europe 200	1410.00	1410.00	1410.00	1410.00	1410.00	1410.00	1410.00	1410.00			

was good for the D-Mark and the malaise of the US currency had its impact on exporters: there was weakness in chemicals, car-makers and engineering and metals, with Hoechst down DM5.10 to DM339.50, Daimler by DM15.30 to DM779.70 and Thyssen by DM7.50 to DM290.

However, the losses were not restricted to cyclical. Deutsche Bank fell DM12.50 to DM714.50, although it denied a Spiegel report alleging that it had profited from the oil futures fiasco which drove Metallgesellschaft into financial disaster. In utilities, Veba fell DM9.80 to DM526 and Viag by DM9.90 to DM475.

PARIS was pulled down by a number of factors, including a weak currency and some institutional switching of funds from France into Germany following the general election there at the weekend. The resignation of a senior member of the Balladur government was not seen as affecting sentiment, brokers said, since the decision by the industry minister to quit on allegations of corruption had been expected.

The CAC-40 index settled down 36.80 or 1.4 per cent at 1,908.42 in turnover estimated at FF6bn.

Vehicle and component stocks reflected the market's overall weakness, with Peugeot off FF6 to FF782, Michelin down FF3.90 to FF729.10 and Valeo FF1.40 lower at FF280.10. The government said yesterday that institutions subscribing to the partial privatisation of Renault - pre-biddering begins today - could be expected to pay between FF163 to FF178 per share.

Eurotunnel confirmed forecasts of weak 1994 revenues and the shares lost FF1.15 or 6 per cent at FF717.35.

ZURICH was lower in this

turnover, the SMI index losing 9.7 to 2,575.6 in response to the weak dollar and profit-taking after last week's advance.

UBS bearers, however, picked up SF5 to SF1,290 as the bank continued to buy its own shares ahead of the extraordinary shareholders meeting on November 22 at which shareholders will be asked to approve the bank's planned capital restructuring.

Roche certificates gave up SF6 to SF5,835 after the group announced that third-quarter sales fell 4.7 per cent to SF3.4bn. Ciba registered dipped SF9 to SF714, while Sandoz, which is expected to announce nine-month figures next week, fell SF5 to SF632.

Export-oriented shares fell prey to the weak US currency. Nestlé giving up SF7 at SF1,197.

AMSTERDAM was supported by bonds as the weak dollar threatened to drag equities lower. The AEX index finished with a modest rise of 0.28 at 408.44, having seen a day's high of 411.60.

Unilever, up 30 cents to FF200.30, attracted interest from Merrill Lynch in a review of food industry stocks, the broker noting that the stock had the best performance among European groups in the third quarter. Merrill added

## EUROPEAN EQUITIES TURNOVER

		Monthly total in local currencies (bn)					
		June 1994	July 1994	Aug 1994	Sep 1994	US \$bn	
Belgium	71.22	43.50	58.27	62.29	1.76		
France	215.75	145.28	146.71	169.87	27.64		
Germany	165.42	127.41	152.68	131.81	98.44		
Italy	58.40	49.940	48.276	52.060	28.84		
Netherlands	28.40	18.40	23.90	19.50	13.73		
Spain	1,308.75	1,282.19	903.85	1,011.44	7.04		
Switzerland	21.63	18.58	18.80	19.60	14.40		
UK	46.32	45.16	52.78	48.98	62.60		

Volume represents purchases and sales. Index cost adjusted to produce off-inflation trading. Some figures may be revised. Source: NatWest Securities

The European equities turnover table, which was published on this page last Friday, inadvertently failed to give the September figures, which are shown above.

that an estimated p/e of 12 times 1995 earnings did not seem too demanding, while the company also stood to benefit from its positioning in the world's emerging economies.

MILAN turned back from early highs amid fresh signs of backtracking by some ministers over the budget proposals. The Mibtel index finished 24 ahead at 10,143, off a high of 10,288, as teething troubles with the new Mib-30 index also acted as a disincentive.

Credito Italiano was a bright spot, climbing 1.45 or 3.6 per cent as it launched its rights issue to raise L1,500bn and the bank's president said he had

many new projects in mind at a time when the Italian banking system was about to regroup.

Olivetti was L80 or 3.1 per cent lower at L1,890, although dealers said there was no news to account for the fall.

TEL AVIV bracketed the Israeli/Jordan peace treaty with two gains of 2.4 per cent. On Sunday, it lifted Friday's Israeli September price index and the Mishnam index put on 4.46 at 188.07; yesterday it added a further 4.52 at 192.59.

Written and edited by William Cochrane, John Pitt and Michael Morgan

## ASIA PACIFIC

## Nikkei softens as yen climbs against US currency

## Tokyo

Investors remained sidelined as the yen rose to the ¥197 level against the dollar and the Nikkei 225 average lost ground on small-roll arbitrage selling, writes Emilio Terazono in Tokyo.

The index closed 11.00 off at 19,558.29 after a day's high of 20,055.41 and low of 19,907.68. Arbitrage buying supported shares in the morning, pushing the index above 20,000, but unwinding of long positions later depressed the index.

Volume came to 200m shares, against Friday's 307m. The Topix index of all first section stocks slipped 6.82 to 1,596.48 and the Nikkei 300 shed 1.38 to 2,998.9. Losers led gains by 508 to 451, with 195 issues unchanged. In London the ISE/Nikkei 30 index eased 0.08 to 1,300.35.

The dollar fell below ¥98 for the first time since September 26, depressing investor confidence. While traders said the currency movements failed to prompt heavy selling, sentiment remained subdued. The US currency was later supported by intervention from the Bank of Japan.

Electricals were lower, with NEC down ¥30 to ¥1,280 and Sony losing ¥20 to ¥5,950. Foreign selling depressed Sega Enterprises, the video game maker, with the shares falling ¥300 to ¥5,030.

Some investors took profits on steel and chemicals which were higher last week on buy-

ing by overseas investors. Mitsubishi Chemical and Kawasaki Steel dipped ¥3 apiece to ¥580 and ¥445 respectively. However, Nippon Steel moved up ¥1 to ¥585 and Ube Industries ¥6 to ¥430.

Sunimoto Metal Mining, the most active issue of the day, advanced ¥16 to ¥365 as speculation that a leading US hedge fund was purchasing gold prompted individual and dealer buying.

Japan Telecom declined ¥10,000 to ¥3,89m and East Japan Railway receded ¥1,000 to ¥483,000, but Nippon Telegraph and Telephone rose for the fifth consecutive day, by ¥7,000 to ¥893,000.

Textiles gained ground, with Toho Rayon adding ¥13 at ¥480 and Mitsubishi Rayon ¥5 at ¥458.

In Osaka, the OSE average eased 33.78 to 22,303.54 in volume of 17.6m shares. Nippon Shoji fell by its daily limit of ¥100 to ¥896. Investors sold the issue after the Securities and Exchange Surveillance Commission, the securities industry watchdog, filed a charge with the Osaka district prosecutors office last week for alleged insider trading by 32 of the company's employees.

Roundup

Mixed performances were seen in the Pacific Basin region. SEOL's continued forward momentum in brick trade, the composite index ending at a record closing high of 1,109.87, up 13.39 or 1.2 per cent.

Brokers commented that a number of positive factors were influencing investors at present, including prospects for high economic growth and good company earnings.

TAIPEI was also firmer, led by rises in the food sector, but the weighted index finished off the day's high, up 35.77 or 0.5 per cent at 6,781.23. The session's peak was 6,778.34. Turnover totalled T\$7.06bn.

In the food sector, President Enterprises went the day's limit up to T\$56 on hopes that the company would make a T\$5.5bn profit by selling its stake in affiliate President Chain Store.

MANILA was supported by property issues and the composite index added 1.7 per cent

at 3,050.14. Some brokers observed that investors seemed to be targeting large manufacturing companies such as Petron and San Miguel. Turnover amounted to 2bn pesos.

SYDNEY was firmer, although bond weakness dampened sentiment. The All Ordinaries index was finally up 8.2 at 2,014.2 after touching 2,004.4.

Among the day's leading performers, BHP advanced 24 cents to A\$20 and News Corporation moved ahead 13 cents to A\$8.38.

HONG KONG finished just off the day's lows in reaction to a weak dollar and continuing concern over the health of China's leader Deng Xiaoping.

The Hang Seng index retreated 94.99 to 9,455.94.

The H-share index of Chinese stocks listed in Hong Kong fell by 3.2 per cent, on the back of a drop in Shanghai A shares.

SHANGHAI's A share index fell 50.54 or 7.5 per cent to 627.55 after a local Communist party newspaper voiced sharp criticism of the media for irresponsible reporting on the market, brokers said.

Brokers added that the index also fell on fears of a flood of so-called "person" shares, prompted by an exchange announcement that Zibo Investment Fund would list a portion of its institutionally owned units on November 4. They will be the first institutional securities on the market.

Most shares in Chinese listed companies are owned by insti-

tutions and are not traded. KUALA LUMPUR gave up early gains to close lower as the market's consolidation and lack of foreign demand kept a lid on prices.

The composite index eased 2.33 to 1,126.12 in volume of 307.0m shares.

Hong Leong Bank made a striking debut, closing at M\$5.75 to give the stock a M\$5.45 premium.

Amalgamated Industrial, the steel products maker, hit the 30 per cent limit-up in the morning at M\$5.70 before the company asked for a suspension in the afternoon trade.

BOMBAY was lower on sustained selling pressure which left the BSE 30-share index 21.00 down at 4,365.43.

## MARKETS IN PERSPECTIVE

		% change in local currency				% change starting				% change in US \$			
		1 Week	4 Weeks	1 Year	Start of 1994	Start of 1994	Start of 1994	Start of 1994	Start of 1994	1 Week	4 Weeks	1 Year	Start of 1994
Austria	.....	+0.93	-4.71	-3.21	-12.49	-7.37	-0.29						
Belgium	.....	+3.32	-2.46	-1.60	-8.76	-3.24	+4.16						
Denmark	.....	+2.90	-3.08	-1.76	-10.04	-4.75	+2.54						
Finland	.....	+8.18	-2.87	+6.51	-2.44	+6.64							
France	.....	+3.79	-0.56	-6.82	-13.91	-9.36	-2.43						
Germany	.....	+6.75	-1.10	+2.62	-8.70	-3.12	+4.29						
Ireland	.....	+4.88	-1.86	+13.78	+2.15	+6.20	+14.32						
Italy	.....	-0.22	-5.54	+8.93	+4.05	+6.75	+14.90						
Netherlands	.....	+3.46	+0.20	+6.44	-4.11	+1.81	+8.38						
Norway	.....	+5.89	-3.84	+6.53	+2.44	+7.96	+16.24						
Spain	.....	+3.75	+0.55	-2.91	-8.80	-4.18	-3.14						
Sweden	.....	+6.53	+0.89	+6.80	+4.82	+10.97	+19.45						
Switzerland	.....	+3.36	-0.06	+2.53	-10.57	-2.36	+5.11						
UK	.....	+3.61	+1.02	+0.83	-8.86	-8.85	-1.88						
EUROPE	.....	+3.97	-0.20	+1.27	-8.06	-4.80	+2.70						
Australia	.....	+2.02	-2.88	-1.66	-7.01	-6.37	+0.79						
Hong Kong	.....	+1.72	-5.37	+16.35	-20.75	-26.38	-20.75						
Japan	.....	+0.80	+1.33	-2.54	+9.97	+16.00	+34.88						
Malaysia	.....	+1.51	-4.25	+6.51	-2.52	-11.69	-4.34						
New Zealand	.....	+4.03	-1.45	+3.78	-0.81	-0.09	+7.55						
Singapore	.....	+2.94	+6.50	+15.57	-1.43	-0.22	+7.41						
Canada	.....	+1.06	-1.13	+8.41	+3.42	-5.96	+1.24						
USA	.....	+3.00	-0.38	+0.43	+0.79	-8.36	+0.79						
Mexico	.....	+4.43	+1.58	+42.59	+5.35	-11.00	-4.20						
South Africa	.....	+0.54	-3.63	+45.57	+14.99	+11.92	+20.47						
WORLD INDEX	.....	+2.48	-0.05	+1.01	+0.13	-0.47	-0.48						

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Last week's enthusiasm for European equities, led by Finland and Germany, stands in stark contrast to an overview from Merrill Lynch which heralds "the coming collapse in market multiples". The US broker's European strategy team believes that price/earnings ratios in major European equity markets could halve as they approach peak earnings. The rise in earnings would make most of the difference in a fall from p/e estimates "in the high teens to 20s on average or 10 or less but Merrill also thinks that markets could trend sideways to down for the next three to five years.

## S Africa extends gains

Johannesburg extended gains in slow trade as the market derived support from stronger world markets and improved gold price prospects. However, dealers said that low trading volumes indicated a lack of real interest and that the medium term direction remained cloudy.

Currencies continued to play their part, with a firmer financial rand underpinning some price rises early in the day.

The overall index collected 28 at 5,655, Industrials rose 49

to 6,404 and golds picked up 12 to 2,500.

De Beers added 10 cents at R101.60, Anglos rose R1 to R238.25 and Minorco hardened 25 cents to R107. Iscor put on 5 cents at R4.78 and Hiveld climbed a strong R1.50 to R32.

SAB firmed R1 to R85.75 and Remgro picked up 75 cents to R27. Sappi registered a fresh high for the year as it approached R3